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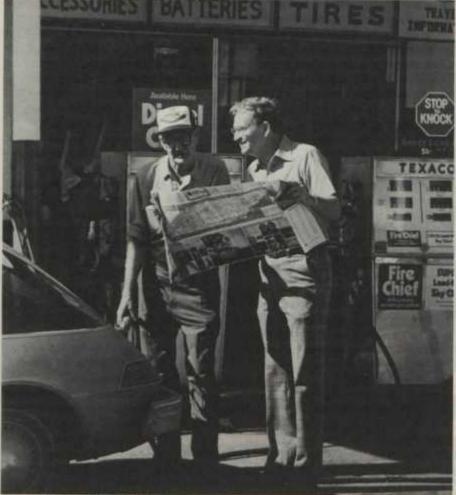
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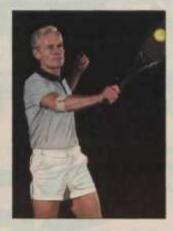
BUSINESS MANAGER

Published by the U.S. Chamber of Commerce Washington, D.C.

# ation's Busin









## Campaign '82

An incumbent President's party typically does poorly in off-year elections. But Ronald Reagan, who says in an interview that "we're going to fight as hard as we can," is not a typi-26 cal President.

## Failings

Facing a flood of customer bankruptcies, business contends the bankruptcy law is flawed. Rep. Billy Lee Evans is sponsoring a bill to change it. He says too many Americans now shrug off debts.

## Two for One

Athletic Tom York, head of AMF, likes to get two benefits for the price of one. He started out in a career that readied him for another. and those dual skills have helped both him and his company.

## **Economic Question**

Some say that the planned defense buildup will help the economy; others argue that it will hurt. Unquestionably, though, it will mean opportunity for many businesses, large and small.

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## The Power of the Political Action Committee

With unions striving to recoup their political fortunes at the voting booth, it's important that business understand what a PAC can do-and what it can't.

## Small Business Speaks, Government Listens

Small business has become a big hitter on Capitol Hill as well as elsewhere in government. A survey indicates how the batting average can be improved.

## Why Europe Bemoans U.S. Interest Rates

Many Europeans say their countries' economies are in deep trouble because of American policies. Replies the administration: Put your own houses in order.

## Finding a Manager Who Fits In

You pick someone for an important job, and he or she just doesn't work out. Why? One answer: You may need to make an honest appraisal of yourself.

## Lending People in the Public Interest

Community, company, employe-all can be expected to gain from the social service leave, a striking example of voluntarism practiced by many companies.

## Where America Stands on Tax Increases

Despite a new poll that shows overwhelming public opposition to increases in business or individual taxes, Congress is considering a slew of them.

## Therapeutic Thrills on Wheels

One is a telephone company executive. Another is an engineering manager. A third is a grandmother who runs a farm. All of them also are motorcyclists.

Cover photo of voting machine Barry Blackman Inset: Dennis Brack—Black Star: Photos this page (from left) Chuck Star: Photos this page (from left) Chuck Fishman—Contact, Mary Ann Gatty, Andy Levin—Black Star, Doug Wilson—Black



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features your business needs to stay ahead of competition.



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The knowledge business



A message from one of the nation's leading state legislators...

## EVERYONE PAYS FOR ADVERSE UTILITY REGULATION

## By Senator Clarence M. Mitchell, III, Senate of Maryland and President, National Black Caucus of State Legislators



Sen. Mitchell, Majority Whip of the Maryland Senate, is in his second term as president of the National Black Caucus of State Legislators.

he National Black Caucus of State Legislators believes every American should be concerned about the financial health of the nation's electric utility industry.

The past century's economic growth, through which we attained the world's highest standard of living, was powered, literally, by electricity. Economic revitalization — indeed, eco-nomic survival — in the future is dependent upon the availability of reliable, reasonably priced electricity for our factories, businesses and homes.

To assure that availability, electric utilities must commit billions of dollars today. They must modernize existing facilities and replace inefficient, obsolete plants. They must displace high cost petroleum-based fuels, and they must build sufficient new capacity to meet tomorrow's needs.

## Bills Artificially Low

State regulatory commissions are not acting in the long-term interest of consumers - or the nation as a whole - when they attempt to keep bills artificially low by sapping the financial strength and investment attractiveness of the utilities in their jurisdictions.

None of us wants to pay more than necessary for an essential service. By paying less than the fair

price for the service now, we guarantee that, at best, we will pay more for electricity in the future.

A recent study by the Department of Energy projects that, if utilities are unable to make needed investments, by the mid-1990 s. electricity prices in some states will be as much as 24% higher than they would be otherwise.

## Utilities Vital to Industry

The electric utility industry makes other industries possible. If our communities do not have reliable, abundant power, industries will move elsewhere, taking jobs, tax revenues and social stability with them.

To keep our electric system and our industrial base competitive, utilities will have to spend about \$340 billion in the rest of this deccade. The major portion of that amount will have to come from outside investors, primarily the savings of individuals and the pools of money that comprise workers' pension funds and insurance programs.

Utilities can attract investment only if their earnings are sufficient to assure reasonable safety of the capital and returns that are competitive with investments such as government securities and money market funds.

Some state regulatory agencies, which establish the maximum amounts electric utilities can earn on the capital invested in them, have not permitted returns to keep pace with inflation or other kinds of investments. Extensive delays in rate proceedings and other adverse regulatory policies have prevented utilities from earning even the amounts authorized by the regulators.

## Caucus Aware of Problem

The 337 members of NBCSL are concerned with those issues, national and local, which relate to the quality of life of the people we represent. The dilemma of public utilities and utility regulation will be the subject of public forums conducted by our Energy Committee, which will prepare a resolution for the consideration of the entire Caucus. The result is expected to be a realistic legislative policy which recognizes industry needs.

There are some signs that, at both the State and Federal level, recognition of the need to restore financial health to the electric utility industry is growing. But we

still have a long way to go.
If the electric power industry falters, the nation's economy falters, diminishing our ability to compete in world markets, our employment opportunities and even our national security.

Claunce M. Milchett

Clarence M. Mitchell, III

I his is one of a series of messages sponsored by the Edison Electric Institute, representing the investorowned utilities that deliver 77% of the nation's electricity.

Participating independent authorities are not paid for these messages. but present them because they believe the issue is of critical national significance. EEI welcomes your comments.

## Edison Electric Institute The association of electric companies

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## **Nation's Business**

# WASHINGTON LETTER

- ECONOMY is sending mixed signals, confusing observers. Most economists sense recession has bottomed out but have trouble documenting that. Retail sales for first quarter are up slightly over previous quarter, seasonally adjusted. Improved: department and apparel stores and restaurants. Drop in gasoine prices depresses statistics. March sales volume was down 0.5 percent from February. But take out gasoline service stations and it's up 0.3 percent.
- ECONOMIC OUTLOOK: Slow recovery, gathering steam later in year. Interest rates? Nobody really knows. Steady decline into autumn looks like good bet. After that, big question mark. Important point to remember: Noninflationary recovery can be stronger than it looks. Prerecession growth standards—against which present progress is measured—were highly inflated. Real growth will not appear as dramatic.
- BIGGEST POLITICAL LIABILITY for Republicans is appearance of disunity, private poll reveals. Willingness of People to trust President Reagan is being eroded by intra-administration bickering and independent course pursued by some GOP members of Congress.
- WHAT SHOULD PRESIDENT DO to stop leaks plaguing his administration? Lyn Nofziger, recently departed White House political operative, offers this blunt advice: "Fire some people."
- REPUBLICAN ROUT in November is not likely unless economy remains sour through September. That's prediction from some sophisticated political analysts in business camp. Reasons? Power of incumbency and administration's

- ability to influence perception of issues. Issues favored Democratic challengers in 1974, Republican challengers in 1980. Even so, fewer than half won. Democrats have fielded only 35 to 40 strong House challengers this year, compared with 95 or more in 1974, by one count. Net gain for conservatives (both parties) of 12 to 14 seats is considered possible.
- Congress was probusiness in 1981, according to ratings compiled by U.S. Chamber of Commerce. Only 30 members of Senate and 205 members of House scored less than 50 percent on their votes. Sixteen senators rated 100 percent—all Republicans. In House, 39 earned top mark—37 Republicans and two Democrats.
- PREGULATORY ISSUE likely to get most attention in this session of Congress is Clean Air Act, say congressional respondents to informal poll taken by U.S. Chamber's Small Business Center. Regulatory reform ranks second. Other issues with good probability of consideration: export trading companies, Small Business Innovation Act. Social Security reform? That won't be taken up until next year, say 82 percent.
- ► CLEAN AIR ACT REFORM is having more trouble in Republican Senate than in Democratic House. Thanks to vigorous support of Rep. John Dingell (D-Mich.), chairman of Energy and Commerce Committee, Luken Clean Air Bill (H.R. 5252) is making progress. Introduced by Rep. Thomas Luken (D-Ohio) and others, reform bill tries to preserve both jobs and clean air while reducing burdensome red tape. Issue languishes in Senate for lack of strong leadership. Chairman of Environment and Public Works Committee.

## **WASHINGTON LETTER**

Sen. Robert Stafford (R-Vt.), seems to favor minor tinkering with present act. Business lobbyists believe that <u>fierce</u> campaign waged by environmentalists against comprehensive reform can be countered only by strong showing of grass-roots business support.

- ▶ POLARIZED POLLSTERS are by-product of increasingly bitter struggle over Clean Air Act revision. Louis Harris has testified in Congress that politicians who "mess around" with existing environmental laws will "lose the '82 election." That interpretation is disputed by Everett Ladd, a University of Connecticut authority on opinion polling. Ladd says people want both economic growth and clean environment. He cites poll by Opinion Research Corporation for U.S. Chamber showing that people believe it is possible to reduce costs imposed by Clean Air Act without harming environment.
- ▶ CLEAN WATER ACT changes have been drafted by Environmental Protection Agency. Major features include fouryear delay of 1984 deadline for installation of "best available" control technology, extension of maximum term for discharge permits to 10 years from present five, more local discretion on standards for pretreatment. Reaction of environmentalists is unfavorable; business reaction is mixed. Some analysts see changes as good start, others are less sanguine. Draft is criticized for proposing to stiffen already harsh criminal penalties and for failing to allow cooperative, multicompany pretreatment facilities. "It is bad strategy to introduce this legislation now." says one lobbyist. "Congress has no chance of getting to it this year."
- ► EMPLOYER'S TAX DEDUCTION for employes'
  health insurance may be limited. Caps
  of \$100 to \$150 per employe per month
  are being discussed by Sen. Robert Dole
  (R-Kans.) and Rep. Dan Rostenkowski
  (D-Ill.). Contributions above amount
  specified would not be deductible as
  business expense and might be classed
  as income taxable to employe. It's

- latest idea for curbing alarming growth of health care costs, now running \$300 billion a year. Objective is to make purchasers cost-conscious, bringing pressure on insurers and providers. Participation by chairmen of tax-writing committees indicates something may happen. High limits now mentioned would affect few firms, however, and those affected might be grandfathered.
- CORPORATE TAX BREAKS in 1981 Reagan tax act are being exaggerated drastically by their opponents, say business analysts. Share of federal revenue from corporations will actually rise from 7.5 percent this year to 11.6 percent in 1984. No other federal revenue source will suffer an increase. Dip in corporate tax receipts from \$61 billion for fiscal 1981 to \$47 billion this year is said to be due as much to recession as to tax cuts. Projection for fiscal 1983: \$65 billion.
- LESS VOLATILITY in money supply figures is object of change planned by Federal Reserve Board. Fed now reveals total for Ml (currency plus checking accounts) at end of each week. If new system is adopted, weekly total will be expressed as average of previous four weeks. Proponents of change say credit markets can be panicked by large swings in weekly figures that are result of statistical gremlins. Other analysts expect it to make little difference. Old figure would continue to be issued, but only new one would be adjusted for seasonal variation.
- ▶ DEREGULATION by diminution: Reagan budget for fiscal 1983 would <u>cut federal</u> regulatory employment by 14,000 and <u>budget by 16 percent</u>, in real terms, compared with levels of 1980.
- ➤ "GERALD FORD'S administration sustained a \$66 billion deficit in 1976, while Jimmy Carter managed to whittle that figure down to just \$27 billion by 1979. Yet in the same time, inflation doubled and interest rates soared to record levels." Treasury Secretary Donald Regan, on significance of deficits.



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# Arson For Profit.

The cost in lives and dollars is appalling. That's why Property-Casualty insurance companies are doing their part to reduce this serious crime.

We've all seen the headlines: "Building gutted by fire. 28 dead, scores injured."

Whether it's a quiet nursing home or a bustling hotel, the scenario is basically the same: A fire starts and suddenly is out of control. Firemen and related emergency services struggle desperately to rescue lives and save property.

The smoke clears and the fire marshal makes his report. Too often it includes the word: arson.

Arson for profit is only a small part of the total arson problem. Most fires are not set for profit. The largest percentage of arson fires is caused by vandals, revenge seekers, or people in need of psychiatric help.

Arson has become a serious social problem. Its solutions demand innovative, coordinated efforts—not only by the insurance business, but by law enforcement authorities, fire inspectors, builders, and legislators.

Property-Casualty insurance companies — acting through the Insurance Committee for Arson Control—help and encourage those important groups to get together. So far, 125 Arson Task Forces have been formed in 41 states.



Meanwhile, insurance companies themselves have been working to reduce the incidence of arson. A prime example, one aimed specifically at arson for profit, is the Property Insurance Loss Register.

This computerized cross-index
of fire claims
over \$500 is
programmed to
react whenever a
"match-up" of similar
characteristics occurs
among current and previous claims.

The PILR computer contains hundreds of thousands of claims, and hundreds more are added every day. They come from the insurance companies that write about 90% of the fire coverage in the United States. In its first year, the Register generated a thousand alerts. From them, insurance companies investigate and uncover arson for profit schemes that otherwise would remain undetected.

These leads are essential, because arson often is hard to spot and even harder to prove. It takes time to investigate suspicious fires; to sift rubble for clues to physical evidence, much of which may have been butned up; to probe for financial circumstances which would indicate motive.

Meanwhile, well-intentioned state laws frequently require prompt claims settlement or notice of reason for delay. Other laws have prevented law enforcement officials and insurers from sharing information about a claim. And, insurance investigators face lawsuits for libel, slander, or bad faith if their claim denial or charge of suspected arson doesn't stand up in court.

All this has had a chilling effect on investigation of possible fraudulent insurance claims.

But Property-Casualty insurance companies are fighting back. They sponsor fire fraud workshops around the country to train thousands of adjusters and claims people. They seek law changes which will remove incentives

for arson and make arson easier to investigate, while protecting the privacy of the policy-holder. They are testing an insurance application form designed to identify and deter potential arson fraud. They developed a model code which makes arson a serious felony and provides appropriate penalties.

Significant operational changes in the many FAIR Plans across the country (where Property-Casualty insurance companies maintain facilities to insure high risk properties) are also making it harder for arsonists to prosper. Inspection practices and underwriting procedures are stronger. Increasingly, claims for fires of a suspicious nature are resisted. New government guidelines give FAIR Plans more flexibility in denying applications and in cancelling insurance coverage. Property owners are threatened with loss of coverage unless unsafe conditions are corrected.

Clearly, progress is being made. Society may never be able to eliminate arson, any more than it can eliminate any other serious crime. However, through increased public concern, improved legislation, training, and the growing level of cooperation among community groups, insurance companies, fire fighters, and law enforcement authorities, we believe the crime of arson can be brought



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## The Minuses of Adding Outsiders

R.F. Merwin eloquently states the case for outside directors on the board of closely held companies ["Does Your Firm Need Outsiders on the Inside?" February].

As a consultant to private companies and the chief executive officer of a midsized steel fabricating firm, I believe the minus factors deserve equal consideration:

- Some outside directors enjoy the prestige but shrink from the tough decisions.
- Their involvement is casual, and they can't possibly match the CEO's expertise and judgment in most company matters.
- Some have built-in conflicts of interest that may work to the company's detriment. It's hard to tell your bankerdirector, for example, that you can get a better deal from another bank.
- They may be overly cautious, even negative, because of their fiduciary obligations and growing personal liability.
- In family-owned firms, the CEO is used to making most decisions unilaterally or within the family. An outsider may be an unwelcome intruder into the private sanctum.
  - · Keeping outside directors properly

Send letters to Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

## CORRECTION

Incorrect prices were given for the U.S. Chamber's "New Primer for Hospital Trustees," advertised on page 71 of the January, 1982, Issue. The correct prices are: 1-9 copies, \$8.00 each; 10-24, \$7.00 each; \$25-99, \$6.00 each; and 100 or more, \$5.00 each.

Copies may be ordered from the U.S. Chamber of Commerce, Box 114, Kensington, Md. 20795. Publication #6633. Make checks payable to U.S. Chamber of Commerce and add appropriate sales tax for deliveries in D.C. and California.

informed is time-consuming, and their fees and expenses can be costly.

My advice: Think hard before you add outsiders.

WILLIAM H. RENTSCHLER Chairman, Cherokee Associates Chairman, Medart, Inc. Lake Forest, Ill.

## Hoover again?

The New Federalism you rave about in "Ready for Takeoff, But Will It Fly?" [March] is nothing but warmed-over Hooverism. Every Republican administration, with the exception of Abraham Lincoln's, has been bad for business. Investors in risk capital endeavors realize this and bail out when the Republicans appear. Reagan doesn't care about economic indicators or economic theory.

He is, however, delivering on his campaign promises. He is making the man who has cash a king and the man who wants to get cash a pauper.

> CHARLES B. TIFFANY Kissimmee, Fla.

## Tax exemption question

Re: "IRS Audits of Religious Beliefs" [James J. Kilpatrick, March].

If any religiously sponsored school wants to discriminate or hold policies contrary to law, most people would not complain. But to help fund those policies, even indirectly, through tax benefits is clearly illogical and not sensible federal policy.

Isn't it time that religious bodies and institutions realize that constitutional protection of their beliefs and rights does not include the right to financial aid from the body politic the laws were made to protect?

Let them finance their own lunacy.

TRACY MCELROY Chicago, Ill.

I was amazed at James J. Kilpatrick's statement dealing with Bob Jones University and its religious beliefs. He wrote, "One such concept, sincerely held, is that white and black persons should not intermarry. Given this dogma, it is not surprising that only a handful of Negroes, most of them married couples, attend Bob Jones."

I find it peculiar that Kilpatrick would equate the willingness of black students to attend a predominantly white university with an interest in marrying a person other than another black. I have always thought that blacks, like all students, attend a university to obtain the best education available.

Though no one will deny that social and other extracurricular activities are an important part of education, Kilpatrick seems to be revealing some personal deep-seated prejudices in his illogical and unfounded statements.

> KENNETH G. STANDARD New York, N.Y.

## Don't blame TV

Re: "Fewer Americans Enjoy Their Jobs" [Outlook, March].

How could you insinuate that television is to blame for the younger generation's dissatisfaction with their jobs? Have you ever thought that today's economy might have put a heavy damper on their dreams?

Whether married or single and regardless of where one lives, the dilemma remains the same. Can anyone afford to enter the housing market, or open and sustain a small business, or put a little away for those rainy days?

Please do not try to find a scapegoat for the feeling of emptiness in our young people. The reasons are much, much larger than television.

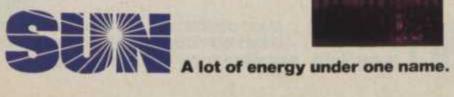
> TIPPY GUERNSEY Dana Point, Calif.

## It's happening here, too

Re: "Why Thatcheromics Isn't Reaganomics" [February]. Your explanation of conditions in England also applies here at home. We tried for years to buy off labor unions, to pay out Social Security without asking what was coming in and to lend money to anyone who could write "I am a student."

We spent all our money, borrowed NATION'S BUSINESS · MAY 1982





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and spent all our children's money and are now working on spending our grandchildren's money. Yet we wonder why money is tight and interest rates high. It's a wonder anyone will lend money to the government, considering its reputation regarding frugality and responsibility.

Maybe we, too, will learn about artificial prosperity.

> WARREN P. SNYDER Evanston, Ill.

## Communication problem

Re: "Bringing a Company Back From the Brink ... " [March].

Joseph F. Alibrandi makes two points that are pertinent today. People have insisted on wages that are out of line with the value of their products, and import duties and government subsidies encourage inefficiency. I just would change wages to rewards and include management.

Managers' lack of communication skills allowed the wage structure explosion of the '60s and '70s. They couldn't convince the work force of the economic consequence of their demands and they couldn't communicate with consumers to detect the groundswell reaction to the "pass it on to the customer" syndrome. Costs continued to rise and sales were lost to foreign competitors. Government came to the rescue with trigger price mechanisms and subsidies.

Comfort returned to the executive suite, and investment in capital assets and technology was delayed. But the basic problem of communication remains. WALTER R. PEAK

Hoover Universal, Inc. Georgetown, Ky.

## Waste at DOD

Re: "Pentagon: Can It Cut Waste?" [March]. I am a veteran and can honestly say I saw a lot of waste during my time in the Army.

I saw 34 brand-new fire extinguishers destroyed because there was too much paper work involved in sending them back.

I also saw a platoon attack 18 new footlockers with sledgehammers. When I asked the sergeant why, he said, "They ordered too many."

I don't really see any change in the future because usually the people who order things destroyed are also responsible for reporting waste.

GLENDA C. KUBISHTA Rancho Cordova, Calif.

I have always been a proponent of the theory that if the government in general, and DOD specifically, were forced to operate as a private-sector business, waste would be dramatically reduced. SUSAN GRIEST TRUSS Nyack, N.Y.

For more than 20 years the Pentagon has been a fiscal disaster. When Arthur Andersen, Booz-Allen & Hamilton, and the U.S. Attorney General move into the Pentagon, then and only then will I know that the surface of the fraud and waste problem is going to be scratched.

ROBERT P. LAZEAR Pensacola, Fla.

## If this is Tuesday . . .

Re: "'Invisibles' Loom Large on the Export Scene" [January]. The caption for the photo in the lower right-hand corner of page 44 is wrong. As can be seen in the photo, the hotel in question is named Rijnhotel. This hotel is located in Holland-not England, as your cap-MARIANNE PIETERSEN tion states. Gulf Oil

Editor's note: You are correct. The hotel is the Quality Crest Rijnhotel, Arnhem, Holland.

Houston, Tex.

## Oust OMB?

In "Another Year, Another Budget Battle" [January] you report that Congress is considering the Omnibus Regulatory Reform Act, which would give the Office of Management and Budget more power over the departments in the executive branch.

OMB is already the biggest problem, organizationally, in the White House. Director David Stockman can virtually neuter any program approved by Congress or a cabinet secretary. Either the President should abolish OMB or fire his cabinet secretaries. Why have them make elaborate plans for programs only to have OMB second-guess them? OMB is a stumbling block that causes confusion and wasted management ef-O.A. LIVELY forts.

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WATCHMAN CLOCKS

## **Equally Vulnerable, Equally Dead**

Now AND THEN a book comes along, so stunning in its impact upon its audience, that individual men and whole governments are moved from thought to action. At random, one thinks of Tom Paine's revolutionary pamphlets, of Emile Zola's J'accuse, of Harriet Beecher Stowe's Uncle Tom's Cabin. Each of them came along at just the right time, when the kindling and the dry logs had been laid and only a match was needed to ignite a fire.

Such a book, if I am not mistaken, is one just published by Alfred A.

Knopf. It is The Fate of the Earth, by Jonathan Schell. At once both reasoned and passionate, the book is a plea for total nuclear disarmament. It comes at just the right time, as an antinuclear awakening begins to stir around the world, and it may provide a bugle call that rallies humankind.

I wish it were possible to provide every reader of NATION'S BUSINESS with a copy of Schell's book, and I say that for this reason: The antinuclear movement is about to be pre-empted by the peaceniks, beatniks and superliberals. Readers of this magazine, by contrast, are generally business types, men and women who meet payrolls, pay their taxes and fulfill their civic responsibilities. If the political pressure is to be exerted that will compel the renunciation of nuclear weapons, it must come from liberals and conservatives alike. On this issue there should be no dichotomy of left and right. We are equally vulnerable; if we fail, we will be equally dead.

Schell begins his book with a backward look at the morning of Aug. 6, 1945, in Hiroshima. A little after 8 o'clock, we dropped a fission bomb with a yield of 12½ kilotons upon this city of 340,000 inhabitants. An estimated 130,000 human beings died in the instant of impact, or died of their injuries over the next three months. Many of them died horribly, the victims of burns that flayed skin from flesh; others died slowly, of radiation sickness. The city itself was flattened by the initial blast. This was followed by a firestorm that lasted for six hours, by violent whirlwinds and by a "black rain" of contaminated debris. The enduring effects later were seen in stillbirths and in deformed children.

The Hiroshima bomb was the Model T of its day, a puny little device that would not qualify in our own time as much more than a tactical weapon. Since then the mind of man has conceived and the engineers have built weapons that are measured not in kilotons but in megatons. Such weapons are not intended to kill mere thousands or hundreds of thou-



sands; the property of these weapons is to kill millions of human beings in a moment. We have them; the Soviet Union has them. Together, the two superpowers have the capacity not only to destroy each other absolutely. That is not Schell's point. Together, the U.S. and the U.S.S.R. also have the capacity to render humankind extinct.

The prospect is unthinkable, but there are times when the unthinkable must be thought. Schell urges that certain palliative notions be put aside—for example, that there could

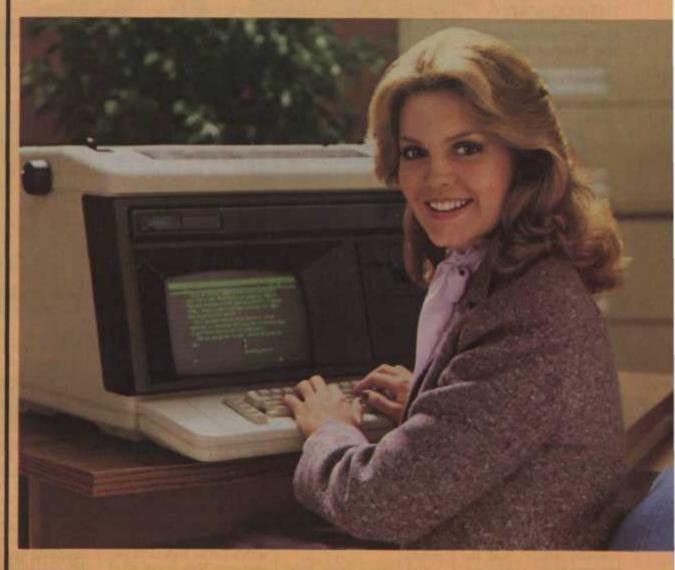
be "limited" nuclear war. Once a belligerent employed a "small" nuclear weapon, an escalation could not be stopped short of holocaust. This would not be "war" at all, for "war" carries connotations of victory, defeat, heroes, survivors, reparations. None of this would be true of a convulsion of nuclear madness.

ADNESS IS the word. No one could win such a war; in the extreme event, virtually no one could survive such a war. In the few hours of such a cataclysmic exchange, birds and animals would be blinded and crops destroyed. In the remote countryside, far from the devastated cities, men would find their blue sky turned brown. Some strains of insects, it is thought, would survive, but perhaps in weirdly mutated forms. No one can say what marine life would survive in contaminated seas. The instrumentalities of civil and economic life would be stripped away-law, government, currency, electric energy, means of transportation and communication. The damage done to the planet's ozone layer would condemn the most innocent populations to the same fate suffered by the combatants. So long as these arsenals exist, we risk not the conquest of nations but the extinction of a species: Homo sapiens. Man.

I cannot go all the way with Jonathan Schell. When he argues that conventional weapons should also be abolished, his idealism founders on reality. When he suggests that concepts of national sovereignty must be abandoned in favor of some form of world government, he loses effectiveness. One thing at a time. The immediate charge upon the superpowers is to begin the task of a multilateral, verifiable dismantling of nuclear weapons—all nuclear weapons. This is not an impossible task, and we ought not to let ourselves be deterred by paranoia or propaganda from pursuing it. I want my grandchildren to grow up in a world of great cities, fertile land and blue sky. If we fail in this challenge, my grandchildren—and yours—may never grow up at all.

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# OUTLOOK

## THE ECONOMY

## **Money Funds And** The Money Supply

The Federal Reserve Board wants authority to impose reserve requirements on money-market funds and other innovative financial activities. The Treasury Department sees no need for giving the board such added power.

Fed board member Lyle E. Gramley recently told a House Banking subcommittee that "the prospect of rapid growth of transactions balances not covered by reserves poses a potentially serious problem for monetary control." He urged Congress to give the Fed power to impose reserve requirements on all financial instruments that can be used to pay bills and conduct business. The central bank's present power to specify the level of bank reserves is an important tool for controlling the nation's money supply. A decrease in the reserve requirement enables banks to make more loans, which expands the money supply, and vice versa.

But Beryl Sprinkel, Treasurv under secretary for monetary affairs, said the existence of the money-mar-



Enough power behind doors of the Federal Reserve Board?

ket funds, which have had tremendous growth in recent years, does not weaken the Fed's ability to conduct monetary policy. "I see no need for changes in regulations or in the Federal Reserve's powers," he said. He urged the Fed to confine itself to controlling the monetary base-currency and bank reserves-and let the market determine what happens to broader measures of the money supply.

## **Economist Sees** Slower Progress

Richard W. Rahn, chief economist of the U.S. Chamber of Commerce, is still optimistic about the outlook for 1983 and 1984 but no longer foresees the progress this year that he did four months ago.

Working with the data available late last year, the Chamber's Forecast Center predicted in the January NA-TION'S BUSINESS that real growth of the gross national product for 1982 would be 2 percent over 1981. That figure has now been revised downward to minus 0.4 percent.

However, 1983 still looks good to the Chamber forecasters.

And there's some good news on inflation. The prediction of a 7.5 percent rise in the consumer price index this year has been lowered to 6.5 percent.

What went wrong with the forecast? "We had expected interest rates to fall as inflationary expectations declined," Rahn explains. The persistence of high interest rates hurt sales of autos, houses and consumer durables. The combined effects of high rates and recession increased federal outlays and decreased federal revenues, swelling the budget deficit.

Rahn expects interest

rates to come down, though. He sees the prime averaging 14 percent for 1982, 11 percent for 1983 and 9 percent for 1984.

## CORPORATIONS

## **Contractors Lower Bids To Get Work**

You'll find a buyer's market if you are inviting bids for industrial or commercial construction in 1982. After allowing for inflation, the expected 3 percent rise in construction activity will actually mean a reduction in construction in all states except New York, Florida, California and Texas.

Faced with shrinking markets for the second year in a row, hungry contractors are submitting bids at prices far below recent levels, reports Robert Andrews, president of Fails Management Institute, Raleigh, N.C., a construction industry consulting firm.

Andrews quotes a construction manager of a nuclear power project with construction costs running in the billions of dollars: "Two years ago almost all of our low bid awards were above our engineers' estimates, with a few as high as 20 percent over. Now almost all of our competitive bids are under our estimates, with the extreme as much as 20 to 30 percent below."

Some sewer and water contractors are quoting prices that are lower than 1979 bids. And construction costs per square foot of suburban office and hotel space, which climbed 15 percent a year in the late 1970s, have been holding steady for the past six quarters.

Andrews sounds one warning: Watch out for the low bidder who might fail to complete the job or seek to make up his loss through change orders later on.

## **Bank Management: Too Many Chiefs?**

Banks in trouble blame government and high interest rates, but they should "start looking at them-selves," says Charles K. Rourke, president of SMC Hendrick, Framingham, Mass. That's his conclusion after pulling together before-and-after data on 11 major banks nationwide that had retained his management consulting firm. He studied the jobs performed by 48,000 employes, worked with bank executives on reorganizing management and then re-evaluated productivi-



Hungry contractors, seeking work during the recession, are submitting competitive bids far below recent levels.



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Top-heavy hierarchies.
 Each bank manager supervises an average of only four workers.
 Rourke believes there are too many managers.

Unnecessary layers.
 More than 30 percent of middle managers could disappear and not be missed,
 Rourke contends, adding that these people don't do the productive work of the organization.

 Expensive division of labor. Bank managers spend 45 percent of their time performing work that should be delegated to lower levels. Says Rourke, "Industrial managers do better, spending only 35 percent of their time on such duties."

Rourke says that to compensate for low salaries of the past, banks offered job security; but as salaries went up, job security never went down. "You can get away with that only in good times," Rourke says.

## The New Faces In the Boardroom

Boards of major U.S. corporations are undergoing changes, according to a study by Heidrick & Struggles, an international management recruiting firm in Chicago.

Among the findings, which cover the country's 1,000 largest industrial companies;

 One of five firms has at least one foreign national on its board. Ten years ago, only 14 percent of the nation's leading companies even expressed an interest in foreign directors.

 Women and minorities now sit on 41 percent of the boards, compared with 36 percent five years ago. However, white women constitute only 3.3 percent of all directors, and blacks—both men and women—represent only 1.2 percent of the total.

 Pay for board members has increased significantly.
 One of four companies pays at least \$18,000 a year to outside directors who regularly attend meetings, compared with one in five in 1980. Of the billion-dollar companies, 24 percent pay at least \$24,000; last year only 10 percent did.

 Travel insurance is the most prevalent perquisite granted incumbent directors, now offered by half of all companies studied.

 The proportion of outside directors (those without ties to the company) has risen to 72 percent from 65 percent in 1979.

## GOVERNMENT

## Curbs on FTC Are Not Imminent

Don't look for major curbs on the Federal Trade Commission's authority any time soon, even though FTC Chairman James Miller believes his agency's powers should be reduced.

The Senate Commerce Committee is considering whether to renew or revise the FTC's mandate, which dates to 1914. But neither the committee nor the full Senate is likely to tamper with the basic rules under which the agency does business.

"There is some desire in Congress to limit the FTC's authority, but it's far less ambitious than what Miller is seeking," says a reliable Senate Commerce Committee source.

Miller recently told committee members that the FTC should be allowed to challenge an advertisement only if the ad injures buyers and is so misleading that even reasonable consumers couldn't recognize it as false or exaggerated. And only misrepresentations of facts, not statements of opinions, should trigger FTC action, he says.

On another tack, Miller is advising Congress not to grant professional groups a blanket exemption from FTC regulation oversight. Doctors and lawyers are lobbying hard on Capitol Hill for such exemption. Miller argues that the FTC can't carry out its responsibility to promote competition if professional services are "immunized, sanctified and set aside as a privileged class."

## End of Delayed Tax Liability?

Treasury Department officials want to eliminate a tax code provision, known as the "completed contract method of accounting," that allows firms to defer income taxes on multiyear contracts. The deferrals function like interest-free loans, the government charges. For a five-year contract, the postponement of taxes is equivalent to a 15 percent increase in profits, says a Treasury official.

Draft legislation has yet to be submitted to Congress, but if the plan goes through, the impact on many defense and construction companies could be severe.

Contractors generally are unable to compute profits on a multiyear project until it is completed. Therefore, says James Schlicht, assistant director for government relations at the National Association of Builders and Contractors, "Treasury's plan could cause firms to pay more taxes than they actually owe."

Also, says Anthony M. Ponticelli, executive secretary of the National Construction Industry Council, a requirement to pay taxes on progress payments during the course of multiyear contracts would reduce companies' cash flow, in some cases by as much as 50 percent—and that would hamper them in getting bonding from insurance companies. "If you can't bond, you can't work."

John F. Loosbrock, a spokesman for the Aerospace Industries Association of America, notes that firms "would have to do considerably more borrowing" at high interest rates.

In 1980 six of the top 10 publicly owned defense contractors used the completed contract method. They paid a combined total of \$63.2 million in federal income taxes and deferred more than \$498 million.

The completed contract method of accounting, which dates back to 1918, used to apply primarily to construction projects. It was expanded in 1970 to cover other manufacturing, especially aerospace and shipbuilding.

## Changes Sought In Costly OSHA Rule

The Labor Department is taking a second look at one of its most embattled regulations: company retention of workers' safety and health records.

Compliance with the 1980 rule costs industry an estimated \$100 million annually, according to the Occupational Safety and Health Admin-



Although Federal Trade Commission Chairman James Miller wants to reduce FTC power, Congress may not go along.

# Ten questions you'd better ask before you buy a telephone answering machine. And how Panasonic answers them all.

Is it sophisticated enough to handle all my message situations? This Panasonic Easa-Phone answering machine is about the smoothest operator around. An electronic microprocessor—the brains of the outfit—oversees an incredible array of functions, giving you more ways to take calls and leave messages than you'll probably ever use.

2 Can I be sure I won't lose a message? Yes—
with a Panasonic safeguard most machines lack:
a second announcement. When the incoming message
tape is full, the electronic brain switches automatically to
the second announcement, which tells your callers their
message isn't being recorded, to call back later, or even
to call you at another number.

Can I get my calls in Rome, GA when my phone's in Rome, PA? Sure, even if you're in Rome, Italy. With a Panasonic remote control, you can get messages from any phone anywhere in the world.

Can I change the announcements when I'm away? You can change the announcements as often as you change plans. And a lot more easily—just phone it in! You can also review, repeat, or skip messages and even leave a marker so you won't hear old messages next time you call in.

5 How long a message can a caller leave for me? Take your pick. You can let callers talk as

long as there's tape. Or limit them to 30 seconds. Or take no message at all, when you just want callers to hear your announcement.

6 How long can my announcement be? As short as five seconds or as long as 45 minutes. Most machines aren't as versatile.

What kind of tape does it use? Panasonic machines use standard cassettes. To replace a cassette, just pop in another instead of running off to the dealer.

Can I use my machine to screen calls? Sure.
You can hear who's calling and then decide'
whether you want to talk.

Is it easy to install? Is it ever! All you need is an AC outlet and a modular jack in the wall!

What brand is it? If the answer is "Panasonic," you have also named the company offering you a complete line of design-coordinated Easa-Phone telephone-management devices, including five answering machines, automatic dialers, and speakerphones.

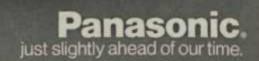
All with an exceptional oneyear warranty on parts and service.† And all designed to make your telephone work as hard as you do.



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Easa-Phone KX-T1525



istration. The rule permits employes, their designated representatives and OSHA itself to inspect company records on workers' exposure to dangerous substances and on job-related medical examinations, complaints and treatment. It also requires that companies retain records up to 30 years after any worker covered by the rule leaves a job.

Under proposed changes, the number of hazardous substances for which companies have to keep records would be reduced by at least half. Medical exposure records would be kept for only those substances considered the most hazardous, instead of the current range of substances, which is so broad that it includes sugar and salt. Firms would be required to retain medical records for 30 years or until an employe leaves a job, whichever comes first. And the number of employes covered by the rule would be reduced to about 16 million from 27 million.

Organized labor vows to fight the proposed changes. As for industry, some companies complain that what they consider the present rule's most onerous provision-third-party access to employes' medical filesisn't even addressed in OSHA's proposed revisions. "The rule in some cases actually impedes effective occupational safety and health programs because employes refuse to participate," says Dr. Bruce W. Karrh, corporate medical director for the Du Pont Company.

## **AGRIBUSINESS**

## **Farmers Face** Sluggish Demand

Secretary of Agriculture John R. Block sees a hard row ahead for farmers, explaining that the agricultural situation can best be characterized by large crops and livestock supplies but sluggish demand.

"Not only is domestic de-mand weak," he says, "but growth in foreign demand



Farmers face hard times as demand for produce slows.

for our agricultural products will also be smaller than in previous years, particularly for feed grains, oil-seeds and cotton. The lower export demand is the result of poor economic performance while agricultural production around the world remains generally high."

Block says the stronger dollar, which will raise the cost of U.S. agricultural exports about 30 percent, and the high costs of holding inventories and the political instability in Eastern Europe also are affecting export sales. Although the cash income of farmers may reach a record \$150 billion in 1982. production expenses continue to rise faster than income, placing farmers in a cost-price squeeze.

## INTERNATIONAL

## **Money Supplies Need Coordinating**

Trying to regulate the growth of a single country's money supply in today's world economy may be like trying to control the level of just one end of a lake. It's time for some coordination, says a Stanford University economist.

Prof. Ronald McKinnon suggests a compact among the central banks of West Germany, Japan and the U.S.—the major trading nations with freely exchange-able currencies. The three would select and announce a target rate for annual growth of their aggregate money supply-say, 6 percent. The U.S. would then adjust the growth of its money supply to keep the three countries' aggregate on target.

"Because other central banks have been on a de facto dollar standard, their exchange rate and convertibility obligations have severely circumscribed their control over their domestic money supplies," McKinnon explains.

"Hence the Federal Reserve is the only central bank with sufficient power to control the 'world' money supply and with it, the world business cycle," he says.

## **Electronic Games** Invade Europe

"Despite galloping recession, inflation and unemployment, the European appetite for silicon chips (in the form of electronic games) has not faltered," reports Frost & Sullivan, a New York business research firm.

Its study revealed that the countries in the European Economic Community (nine countries in 1981 with 265 million population) provided a \$1.8 billion electronic games market in Europe in 1981, up from \$1.4 billion in 1980. It is expected to increase to \$4.1 billion by 1985. That works out to a 23 percent annual growth rate during the five-year period.

The market for programmable TV games is expected to double in size over the same five years. One reason: The average price, now \$234, is likely to fall to \$100 by 1985 and to \$60 by the end of

the decade.

European buyers in order of volume are West Germany, the United Kingdom, France and Italy. A typical buyer of electronic games is male and between 25 and 35 years old.

## Reconciliation For **Conflicting Laws?**

Creation of a presidential commission to study problems generated by conflicts between U.S. and foreign

laws has been proposed by the Senate Judiciary Committee. The proposal is supported by the U.S. Chamber of Commerce.

The problem, says a Chamber representative, is what to do if two or more countries seek to apply conflicting laws to control the same conduct.

Often, he says, U.S. business abroad encounters foreign laws that are completely incompatible with laws at home.

Foreign subsidiaries of U.S. firms have in the past been prohibited by the U.S. government from fulfilling sales agreements with certain nations-despite the host countries' insistence that the sales take place.

Prospects for passage of the bill are considered "shaky at best," according to a committee staff member. Expense is cited as one strike against it.

## SMALL BUSINESS

## To Lower Costs, Walk up One Flight

Second-story commercial space may be the salvation of a small business, says Ray D'Avino, director of commercial revitalization for Citibank's Community Banking Project.

A recent survey of the second, third and fourth floors of 212 buildings along the Flatbush Avenue retail corridor in Brooklyn, N.Y., found approximately 125,000 square feet of vacant space available at annual rents as low as \$4 per square foot. Rents for prime office space in nearby Manhattan exceed \$35 per square foot.

The Flatbush area is in the early stages of revitalization. The bank official says there are many neighborhoods across the country where a simple cleaning or modest renovation can make a building more marketable and contribute to a neighborhood turnaround.

Though many retailers willingly pay higher rents for ground-floor space, the Citibank report suggests

# SUPPLY SUDE SIDE NOMICS

## What is it? What will it do for you?

Much has been said and written about supply side economics in the months since its utilization in U.S. economic policymaking became a reality.

Still, supply side strategy has yet to be adequately explained as a total picture, involving not only tax cuts, but also regulatory reform, reduced federal spending, and more consistent monetary policy.

The U.S. Chamber has put the pieces of the supply side puzzle together in an enlightening 16-minute sound slide program entitled, "Supply

Side Economics-A Total Picture."

Excellent for business, organization, and community meetings, and for presentation to employee or student groups, it illustrates:

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# On March 31st, Connecticut Gel

Here's what the business press is saying about the largest insurance merger ever. On March 31st, a new company named CIGNA was created. Connecticut General and INA, two firms of roughly the same size and with complementary strengths were the creators. It is a merger of equals, entered into voluntarily. This is how the business press reviewed it.

"The combined company...will

marry Connecticut General's exceptional strength in corporate employee benefits and marketing to INA's strength, both domestically and abroad, in commercial property and casualty coverage."

-The New York Times

"Not a discouraging word has been heard on Wall Street about the



## eral and INA became CIGNA.

decision by Connecticut General and INA to get together..."

-Fortune Magazine

"Underlying...[the merger]...is
the enormous potential for extending the concept of group insurance
beyond life and health coverage into
such areas as auto and homeowner
policies."

—Business Week

"The union is a shrewd effort to squeeze out rising costs and stake out an advance position in the rapidly evolving insurance business."

-The New York Times

All of us at CIGNA share the optimism and confidence of these informed observers.

The reason is simple: We are

committed to be the best. The merger gives us the resources to meet that challenge.



Small businesses are urged to explore second-story space.

several ventures that could find bargains in second-story space:

- · Light manufacturinglabor-intensive crafts that don't need a large stockpile of goods.
- · Office services-telephone answering, computer processing, copying, printing.
- · Repair shops-appliance service centers, general fix-it shops.
- · Instructional facilitiesdance studios, martial arts academies, exercise and weight-loss clinics.

## Can't Get a Loan? Create a Bank

The first U.S. bank owned by small businesses and oriented to them may spawn 100 imitators.

The founder of year-old Stewardship Bank of Oregon, Robert E. Laughlin, chief executive of Western Food Equipment Company, Portland, predicts 100 community-owned banks specializing in small business loans will be formed in the next five years. There are steering committees in northern New Jersey, Seattle and Los Angeles as well as somewhat less developed efforts in 20 other areas, the executive says.

Laughlin first considered forming a bank when in 1977 his food equipment distribution company had trouble obtaining favorable loan rates and a continuing credit line at a local bank. Stewardship was launched in March. 1981, with \$1.6 million in capitalization obtained in amounts as small as \$1,000 from about 350 investors.

The bank, a member of the Federal Deposit Insurance Corporation, is headed by an experienced banker and today boasts \$4 million in deposits, 1,300 accounts and a staff of 12. About 80 percent of loans are made at rates below the posted prime lending rate.

"Small business people can help themselves," says Laughlin, who serves as a bank director. "I suggest small business people form their own banks to meet their needs. Small business works better with small banks."

## **Hispanic Firms: New** Force in Economy

Hispanic-owned businesses are a growing part of the nation's economy.

Government estimates now place their number at 250,000 firms with \$12.5 billion in annual sales. Hard numbers are unavailable. however, and Hispanic business is neither well understood nor well integrated with the rest of the American private sector, says Richard G. Arellano.

He is the primary researcher for Strategies for Hispanic Business Development, a project recently undertaken by the National Chamber Foundation. The research is supported by a grant from the Armco Foundation.

Arellano says the objectives are to analyze the U.S. Hispanic business community and bring it into the American business mainstream.

The project is complicated by a basic dilemma-there is uncertainty about who is Hispanic. "The government has gone through gyrations on the subject," Arellano says. The estimate of 250,000 Hispanic-owned businesses is based on the use of Hispanic surnames and self-identification as Hispanic on census forms.

Arellano says the Census Bureau now leans toward simply using self-identifica-

To create a profile of the people behind the statistics, the Chamber Foundation staff will consult in depth with about 45 advisers from Hispanic and non-Hispanic groups and the academic community and will interview many Hispanic business people.

## PERSONAL

## **Golf Courses Break** Par in Recession

The economy may have receded but the game of golf certainly has not.

To help accommodate the estimated 16 million Americans now playing the game, 149 new courses opened in the U.S. last year, reports the National Golf Foundation. That brings the nation's total number of golf courses to 12,894, covering more than 1.4 million acres.

Florida, with its yearround golfing weather, led other states with 26 course openings in 1981. Runnersup were California, 10; Texas, nine; Arizona and Michigan, eight each; Minnesota and Wisconsin, six each; and Colorado, New York and South Carolina, five each.

The game apparently hasn't captured everyone's fancy, however. The foundation says Alaska, Delaware, Rhode Island and South Dakota putted out, with no golf course development.

## Tune-Ups Are Money in the Bank

Regular servicing of a car, whether it's your personal vehicle or one in your company's fleet, can result in substantial savings and higher resale values, according to Fram Corporation, a major auto parts manufacturer.

It made the point by testing two identical automobiles (1977 Datsun F10s) that had similar mileage (80,000); one had a history of good maintenance, and the other had gone without regular servicing.

Fram obtained all shop records on both cars, then ran the vehicles through a 2,000-mile road test. David Bowman, technical services manager for the Providence, R.I., firm, says the main-tained car had appropriate care over the years, that is, scheduled oil and filter changes, and regular tuneups. The other auto had no record of oil changes and only one tune-up-after it had been towed into a ga-

"After testing both vehicles for mileage, oil consumption, exhaust emissions and needed repairs," Bowman says, "we found that the owner of the maintained car came out at least \$748 ahead of the other owner through savings.

"More important," he says, "the well-maintained car's resale value turned out to be \$550 higher than that of the neglected car."

PHOTO DAVE G. HOUSEN-



Lean times have not affected the game of golf. More courses have been built in most states, with Florida leading the way.

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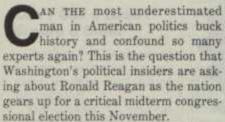
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# REAGAN: On Top in An Off-Year?

Typically, a President's party does poorly in off-year elections.

But Ronald Reagan is not a typical President, and these are not typical times.

By James Robinson



Only once in modern political history has the party occupying the White House managed to gain congressional seats in an off-year election: Franklin Roosevelt's Democrats won nine in 1934. The lessons of history suggest that if 1982 is a typical year, Ronald Reagan's Republicans will lose 34.

But this is by no means a typical period in American politics. In 1973 Americans were asked by pollster Louis Harris whether they agreed with the statement, "That government is best which governs least." Those who expressed an opinion disagreed then by a margin of 56 to 32 percent. In 1976,

James Robinson is director of executive communications for the Chamber of Commerce of the United States. even after the disillusionment of Watergate, a plurality still expressed opposition, 48 to 38 percent. Yet by 1981 a stunning reversal had taken place. Americans, 59 to 35 percent, said they agreed that the least government is the best government.

This turnabout is evidence in capsule form of a basic conservative trend that has swept the nation in recent years—a transition most commonly defined by widespread opposition to big government and its taxing, regulating and spending habits, as well as a resurgence of traditional American values and mores.

But how deep does it run? How long will it last? These questions have forced many a politician's ear to the ground for the thundering sounds of an oncoming bandwagon—whether it comes from the left, the right or straight down the middle of the rond. The results of this year's congressional elections may provide an answer.

The politicians have yet to agree on how to interpret the 1980 landslide, much less on what to expect for 1982.



When asked in November, 1980, whether his election represented a basic political conversion among Americans, an optimistic Ronald Reagan said: "I have to believe there was a shift. I think it was based on the discovery that some of the nostrums that were administered under the name of liberalism were not doing the job." (The President is still optimistic. See the accompanying exclusive interview.)

as little more than a protest vote with no philosophical anchor. Says political analyst and newsletter editor Alan Baron: "What the American people had wasn't working. So they decided to try something else. The mistake the Reagan people have made for the past year and a half is thinking they had an ideological mandate. I don't accept that premise."

Perhaps much of this disagreement can be cleared up, suggests Alan Ehrenhalt, political editor of the nonpartisan Congressional Quarterly, "if we stop asking whether Ronald Reagan's

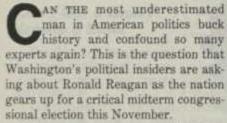
## **POLITICAL ANALYSIS**

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THERS READ the 1980 tea leaves as little more than a protest vote with no philosophical anchor. Says political analyst and newsletter editor Alan Baron: "What the American people had wasn't working. So they decided to try something else. The mistake the Reagan people have made for the past year and a half is thinking they had an ideological mandate. I don't accept that premise."

Perhaps much of this disagreement can be cleared up, suggests Alan Ehrenhalt, political editor of the nonpartisan Congressional Quarterly, "if we stop asking whether Ronald Reagan's





election in 1980 represented the beginning of an era. It reflected the culmination of ideas that have been gaining force since the mid-1960s."

Edwin J. Feulner, president of the conservative Heritage Foundation, agrees: "It was not the Reagan election that caused the rebirth of conservatism. On the contrary, it was the rebirth of conservatism that produced the election landslide."

When contrasted with the upheavals of the 1960s, the portrait of America painted today by observers of all political persuasions shows a nation that has grown strikingly old-fashioned in lifestyle and decidedly conservative on issues of government and economics. Ronald Reagan rode the crest of this conservative tide to his election in 1980 and harnessed it again in 1981 to persuade Congress to enact sweeping changes in tax and budget policy.

But the current recession and the stubborn refusal of interest rates to chase inflation down the ladder to single digits have led to dissension among the President's political coalition-and

The President believes that his philosophy still has the support of the people in all walks of life who voted for him.

Democratic leaders hope many of those voters will reject conservatism and congressional candidates who espouse it.

to widespread speculation that the 1982 elections portend a repudiation of Ronald Reagan's brand of conservative government.

Leon Shull, national director of the liberal Americans for Democratic Action, is one who anticipates this repudiation. "Such issues as unemployment, deficits and even foreign policy," Shull predicts, "might turn the 1982 election into a rout." He says Reagan, whom he calls "the most inadequate President since Harding," is losing support everywhere, "not only among the working class and blacks, but in the business community as well."

Rep. Tony Coehlo (Calif.), chairman of the National Democratic Congressional Campaign Committee, also sees a rejection of Reagan and his policies in



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the offing. Though he acknowledges a "general conservative trend since the late '60s," Coehlo insists that "the American people are not accepting the New Right philosophy any more than they accepted the New Left in years past."

Coehlo, who plots national political strategy for Democratic congressional candidates, plans to make "the whole issue of fairness" a central theme of a campaign that he predicts will net his party 10 House seats in November, And he says that "growing fears about whether we are headed toward an international conflict" will also turn voters against Republicans.

His eagerness to accentuate the



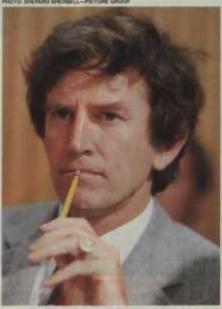
Peter Hannaford says Americans are willing to wait for economic results.

charge that the President's economic policies grant unfair advantages to the well off at the expense of the poor doesn't bother his Republican counterpart, Rep. Guy Vander Jagt (Mich.), one bit. "We're going to pound away on fairness, too," promises the chairman of the National Republican Congressional Committee. "For the first time in years we've shown some compassion for the family that sits around the kitchen table trying to pay the bills, and some fairness to the people who pay the taxes."

HE SUGGESTION that Reagan's defense and foreign policies will spell trouble for those who run under the President's banner is dismissed by Rep. Jerry Solomon (N.Y.), chairman of the Republicans' Congressional Task Force on National Defense. "Any candidate who tries to run against a stronger U.S. defense posture in the world is going to be clobbered in November," Solomon predicts.

Despite the recession, defenders of Reagan economic policies are not as mired in gloom and doom as has been reported. Vander Jagt, denving suggestions that he has continually revised his 1982 election forecasts as the recession has deepened, emphasizes, "I say today exactly what I said a year ago, that Republicans have the chance to score significant gains, including taking control of the House."

Republican National Committee Chairman Richard Richards is optimistic as well and predicts his party "will gain seats in the Southern and Western states whether the economy changes or



Sen. Gary Hart says the people did not vote for Reagan's "dark agenda."

not." And Sen. Barry Goldwater (R-Ariz.) foresees a "close" election outcome but with conservatives coming out on top.

A major source of this optimism is the dramatic reduction in inflation during Reagan's brief tenure. U.S. Chamber of Commerce President Richard Lesher explains, "So far, we seem to have forgotten that inflation was the economic problem everyone declared to be No. I just a couple of years ago, and it has come down a long way-from over 12 percent when Ronald Reagan took office to an annual rate so far in 1982 of 3 percent. I think people are going to remember that between now and November."

Lesher emphasizes that it is important to look beyond the two-party squabble to assess accurately the level of support for Reagan's conservative economics and "less is better" government. "There has been a fundamental shift in both parties toward the right, toward conservative principles of less spending, less government and less taxes," he says. With that said, Lesher minces no words: "I can predict with absolute certainty that come November, conservatives are going to control both the House and the Senate."

o ensure this outcome, explains Donald Kendall, former chairman of the U.S. Chamber and a leading advocate of business involvement in politics, business leaders intend to apply philosophical rather than political criteria to 1982 congressional candidates. "I am particularly concerned about the Boll Weevil Democrats in the House," Kendall explains. "They put their necks on the line for the President's economic policies. They are worthy of our support, too."

Still, perceptions are important. Historical trends and philosophy aside, a numerical loss for the President's party would be interpreted by many as a personal rejection. It could scare a new Congress from supporting Reagan's efforts to cut the budget, hold down taxes and regulations, and return powers and programs to states and localities.

The eagerness to write off Ronald Reagan comes as no surprise to Peter Hannaford, a public relations executive who for many years served as a senior Reagan adviser. To Hannaford, a loss of congressional seats "would be considered normal in other times and reported as such. Yet if Republicans lose this time, it will be reported as a major repudiation of the President. The reason is that the media have always held Ronald Reagan to a higher standard of performance than most other politicians."

Nonetheless, Hannaford is optimistic: "I think the American people are willing to give the President up to another year for his economic program to produce results. They realize that turning our economy around is not like turning a motorboat around in a lake, but more like turning the QE II around in the Atlantic."

The Chamber's Lesher agrees. "The fact is that the only game in town is the conservative agenda," he says. "Liberals and conservatives, Democrats and Republicans alike, are talking about cutting the budget and are wringing their hands over the deficit." Sen. Gary W. Hart (D-Colo.), takes issue with this assessment. "The American people did not vote for this dark agenda," he says of Reagan's policies. "They voted for a change of methods, but they did not The cost of a phone call. That's all it will cost you for A FULL SERVICE BANK\* to arrange a voluntary IRA payroll deduction plan for your employees.

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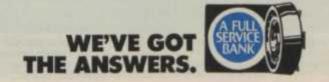
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vote for a change of heart. And this is the issue we must take to them."

And so the lines are drawn for 1982. At issue is whether Ronald Reagan, in the last two years of his term and perhaps his Presidency, will have a Congress sympathetic to his efforts to control the size and growth of government, reaffirm the principles of private enterprise and return to states and localities greater control over their own destinies.

A numerical defeat for Republicans, if it were in line with the historical average, would hardly signal the end of progress on this new agenda for America—because the social, political and economic forces that propel it run far deeper than one man, one party or one election.

Still, the singular achievement of Franklin Roosevelt in 1934 must be on the minds of the President and his strategists. The depression FDR was elected to cure was far from over, yet with his skills as a communicator he was able to convince the American people that the bold course he had charted offered the best chance for economic recovery.

If Ronald Reagan, who has more progress to report than Roosevelt in 1934, uses his skills to communicate this progress and win people's patience, he will likely confound the critics, skeptics and historians once again.

# "We're Going To Fight as Hard as We Can"

Ronald Reagan, in this Nation's Business interview, discusses the prospects for his conservative agenda in the November elections and beyond.

## Mr. President, do you still believe your election was a mandate for conservative government?

I believe it more today than I did then. Since the election the American people have held those of us who serve in Washington to the commitments we made during the campaign. It was the people who rose up and insisted that Congress approve last year's budget and tax reduction packages. I think the American people will continue to demand that we stick with our economic program.

### How will Republicans and conservatives fare in this fall's elections?

I've learned never to make predictions—they can only get you in trouble. All I can say is that we're going to fight as hard as we can this fall by taking our message directly to the American people.

# How far do you think the American people are willing to reduce the scope of government—especially in Social Security, student loan programs and the like?

First of all, we have never suggested that the government reduce its scope in Social Security. The principal purpose of our bipartisan task force is to help ensure the integrity of Social Security.

But in many other areas, such as economic subsidies and aid to unintended beneficiaries, we are asking that the scope of government be reduced. For too long, the government has been granting every request made of it, and the result has been a government claiming far more of the taxpayers' incomes than it has a right to. Our desire is to reduce or eliminate government benefits and subsidies to those who neither deserve nor need them.

# Some have said that the conservative trend depends on you, and that once you leave the political scene, it will all but disappear. Do you agree?

I am in this office today only because I share the beliefs about government and our national defenses that are held by the majority of Americans. I have traveled all across this country many times, both before and after the election, and I have seen a growing feeling among the people that government has grown too big and that the potential threats abroad to our security are serious. If we succeed in what we attempt to do over the next several years, I believe we will help strengthen Americans' commitments to these goals.

## What role can the business community play to further your longheld goal to change the way America is governed?

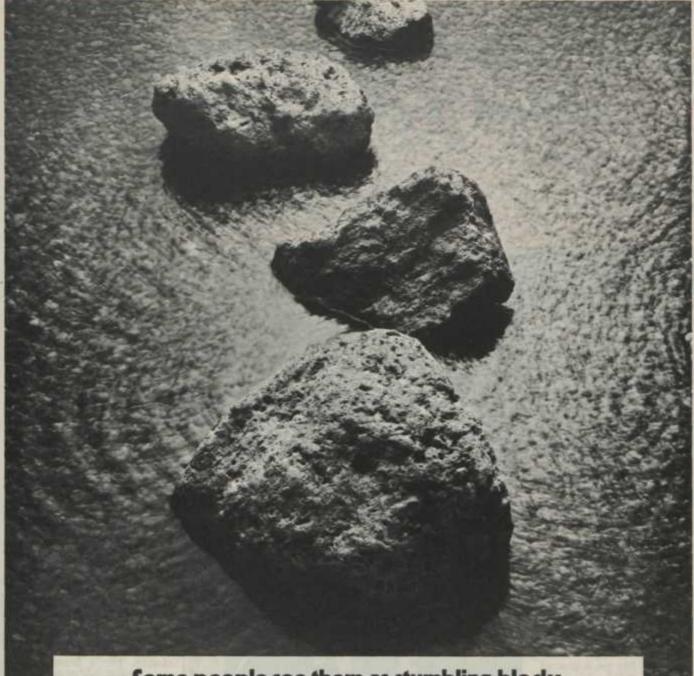
The business community, and the U.S. Chamber of Commerce in particular, have played a major role in helping us get much of our economic program passed. I believe all Americans have a right and even a responsibility to get involved in the process to fight for what they believe inthe millions of business people are no exception. I would also hope that as they are able, the business community would share their expertise with local communities across the nation in the kind of private-sector initiatives that are already a proud part of the American heritage.

## How conservative is America? Is this as conservative a period as you can recall?

I prefer to look upon this time in our history as an era of national renewal in which Americans are rediscovering the basic principles upon which our nation was founded.

That means greater economic freedom, which can only come about by reducing tax rates and unnecessary regulation. It means trimming the scope of government and returning power and prerogatives to the state and local governments, and to the people themselves. It means love of family, devotion to community and faith in God. We Americans have never lost these principles, but some government policies have given them quite a beating over the last several years.

I can think of no period at least since the 1930s when the challenges facing us have been so widespread. But then, we also have some unique opportunities to turn things around, and I'm convinced that, working together, we will be able to do this.



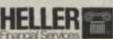
# Some people see them as stumbling blocks. We see them as stepping stones.

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# The Power of The Political Action Committee

By John M. Eddinger And Craig S. Brightup

ABOR LEADER Lane Kirkland concluded his address to the AFL-CIO convention late last year with these words: "And now to work."

The work he has in mind is a massive political action campaign to restore the political power of organized labor, which in November, 1980, suffered its worst political defeat in more than half a century.

"As we approach a new election year," the AFL-CIO president told the convention, "we must prepare now for the next battle in our long campaign."

Those preparations include regional political action seminars, now under way, in which union political strategists are discussing ways to elect officials who, in Kirkland's words, "share our view."

Kirkland has set a goal of winning more than 30 seats in the House and five or six in the Senate, thereby overturning the 1980 conservative gains.

Business political action strategists are watching

those developments with great interest. The 1982 congressional elections are shaping up as a clear-cut battle between the labor and liberal forces that want to tip the Capitol Hill balance back in their favor, and the business and conservative groups that want to build on their gains of 1980.

JOHN M. EDDINGER is assistant manager, public affairs, U.S. Chamber of Commerce. CRAIG S. BRIGHTUP is director, legislative and political issues, U.S. Chamber of Commerce.



Lane Kirkland (center), president of the AFL-CIO: Labor's manpower and money will be directed at the 1982 campaigns.

Much of that competition will involve political action committees, organizations that have had a significant impact on American politics in recent years.

To make such committees effective on behalf of business-oriented candidates in the forthcoming elections, the experts say, it is important to realize not only what PAC's can do but also what they cannot do.

One thing they can do is help raise money. They cannot, however, replace direct personal involvement in campaign work.

The high priority labor gives the 1982 elections is evident from the AFL-CIO decision to shift members' contributions to its Committee on Political Education from a voluntary to a mandatory basis. Each member will pay 2 cents per month. That may not seem like much, but it will realize \$3.5 million.

COPE, traditionally the cutting edge of organized labor's political activity, was highly successful in electing prolabor candidates for many vears. COPE's efforts have included both fund raising and manpower.

Money's importance in campaigning is underscored by the way inflation has hit the campaign trail.

A typical challenger for a seat in the House of Representatives will have to spend \$300,000 just to have an even chance. For a Senate seat, the cost rises to \$2 million or

One reason for those high costs is that incumbents have all the advantages of office. variously estimated to be between \$650,000 and \$1 million

in media exposure, mailing privileges and constituent services.

Another reason is that the costs of the traditional tools for gaining office are skyrocketing. Between 1976 and 1980 the price of a 60-second prime-time television commercial went up 69 percent, for example. First-class postage rose 50 percent; bumper stickers, 25 percent; and campaign buttons, 11 percent. This year will be the most expensive campaign year ever.

How much do PAC's give?

Federal Election Commission records

show that corporate and labor PAC's combined accounted for only 13 percent of the almost \$250 million contributed directly into campaign chests for Senate and House races in 1980. Corporations-more than 1,200 of thempumped in \$19 million in hard dollars. and 331 unions gave \$13 million.

Too often overlooked is the other 87 percent. The bulk of that \$218 million came from individual contributors acting on their own, through the major political parties or in other avenues of giving.

Where does PAC money come from? PAC contributions to candidates are not from the sponsoring corporations or unions themselves. They are a collection of individual donations from managers and stockholders, in the case of corporate PAC's, and from the rank and file in the case of union PAC's. These are voluntary contributions, with stiff penalties for even the appearance of coercion. (The mandatory contributions that the AFL-CIO will collect are legal because the money will fund political education, not campaigns.)

Estimates vary on the average size of these individual contributions; they range from \$25 to \$150, depending on who is making the guess.

Where does this PAC money go?

By party, labor gave 13 times as much to Democrats as to Republicans in the 1980 elections. Corporations gave to Republicans by a ratio of 2 to 1.

N THE BASIS of incumbency, corporations gave \$10.8 million to incumbents and \$8.2 million to challengers. Unions, on the other hand, gave incumbents \$9.3 million and challengers only \$3.8 million.

Of the 1,380 candidates vying for Senate and House seats, winners and losers raised and spent the same amount of money, but 67 percent of all PAC contributions went to winners.

However, PAC money, or any other money for that matter, doesn't buy elections, as some people charge.

In 1980, six of the 10 biggest spenders lost their election bids for the Senate. Only one among the top four spenders-Sen. Alan Cranston (D-Calif.)—won election. He spent more than \$2.8 million and had the advantage of incumbency. Two other incumbents, Sens. George McGovern (D-S.D.) and Birch Bayh (D-Ind.), each spent just under \$2.8 million in their losing battles for office. Fourth on the spending scale was Bess Myerson, who spent about \$2.4 million in an unsuccessful Democratic primary run for a U.S. Senate nomination in New York against former Rep. Elizabeth Holtzman, who went on to lose the general election.

Four of the top 10 spenders in the House came out on the short end of the election tally. Topping the spending list was Rep. Robert Dornan (R-Calif.), who spent more than \$1.9 million to retain his seat. Second-ranked Rep. Jim Wright (D-Tex.) spent just under \$1.2 million to keep his seat, and Rep. James Corman (D-Calif.) came in third by



PAC's help monied interests, says

the election battle.

Fred Wertheimer, Common Cause. shelling out \$905,000-and still losing

The dramatic upset of former Majority Whip John Brademas (D-Ind.) by the relatively unknown Republican challenger, John Hiler, then 27, provides an example of how PAC money can be overshadowed in a campaign.

Brademas raised and spent \$744,000 to Hiler's \$408,000, but they were closer in raising PAC money: Brademas, \$150,000, and Hiler, \$130,000. When the ballots were counted, Hiler had bested the powerful Brademas with 55 percent of the vote.

Volunteers were the key. Nobody in Hiler's campaign had any previous political experience, but what they lacked in know-how, they more than made up for in hard work and enthusiasm.

Hiler's volunteers put up 10,000 yard signs, made 104,000 telephone calls to identify voters, got 4,300 people to attend fund-raisers, and stuffed, sealed, stamped and addressed 800,000 pieces of mail. "I think PAC's underestimate the importance of volunteers," Hiler says. "PAC money is important, but general support and getting people involved can overcome the inherent negatives that can exist in any campaign."

One of the negatives for Hiler was a frustration common to many candidates who seek PAC funds. He received nearly 60 percent of his PAC contributions in the final two weeks of the campaign. "In August," says Hiler, "we thought we could raise about \$100,000 from PAC's if we went after it. We decided to spend based on what we thought we had to do to win. If we didn't get any PAC money, we were going to have a \$100,000 debt."



PAC money helped, but volunteer effort was the decisive factor, says Rep. John Hiler.

But Hiler was willing-and able-to take that risk. "Unfortunately, there are a lot of good candidates who can't," says Hiler. "They are married and have children, or may not have their own company. They have to work day in and day out-or else they quit work and have to survive on their savings."

A loud critic of PAC's and their influence is the liberal congressional watchdog organization, Common Cause, Its president, Fred Wertheimer, recently told a congressional hearing on election law that "campaign contributions remain a vehicle for obtaining access and influence in the U.S. Congress ... for monied special interests ... exercising enormous and growing power."

The Common Cause alternative is partial public financing of congressional campaigns, an idea that has been kicked around the halls of Congress for some years but has always been rejected. Aside from the enormous expense of such a plan, its greatest flaw is that it would enhance the already substantial advantage of incumbency.

Buying access, or influence, through PAC contributions has less validity now

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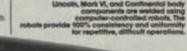
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than ever, and most experts agree that the idea never did hold much water. By law, no individual can give more than \$5,000 to a PAC, and each PAC is limited to \$5,000 for any candidate in a primary, \$5,000 in a general election and then another \$5,000 in the rare case of a runoff election. With a maximum of \$10,000 for most campaigns—and few PAC's ever near that limit—there isn't much influence to be had in a \$300,000-plus run for office.

more than 140,000 union members, whose spouses and families participate year-round as volunteers in various education, registration and get-out-the-vote drives.

How has organized labor, with its declining membership—25.2 percent of the work force in 1968, 20 percent today—managed to remain as formidable a political power as it still is?

One reason is that most of the \$3.9 million reported by the Federal Election

The U.S. Chamber is a different kind of animal in the political field. Through its PAC, the National Chamber Alliance for Politics, it provides services to political candidates, such as consultation, on a selected basis, and distributes a variety of partisan communications, including voting records, to its 200,000-plus members nationwide.

In addition, the Chamber helps individual businesses set up their own PAC's. "Contributing to a PAC is only the last step," says John Kochevar, the Chamber's manager of public affairs and treasurer of its PAC. "First come the political awareness programs and the emphasis on exercising the right to vote. Any contributions on top of that are gravy."

"Politics is like a horse race," says a public affairs associate of Sun Company, a leader in the PAC field. "Those who just stand by and watch generally have little interest in the outcome, but those who place a bet, no matter what the size, have a genuine stake in the results."

SunPAC is among the few corporate PAC's to tap one great resource, its stockholders—something most PAC's avoid for fear of a negative reaction. Sun Company found in a 1975 survey of its stockholders that a staggering 83 percent said they would help in resisting unreasonable government regulations. Roughly half of SunPAC's funds now come from stockholders.

Where is the future for corporate PAC's? "The real power in the long term is to use the corporate PAC to educate employes on the political process, motivating them to become involved to help people get elected," says Edward A. Grefe, a prominent international political and public affairs consultant and a veteran of 30 political campaigns. "The unions learned that basic principle a long time ago.

"The future belongs to those who stress political education and participation, rather than just fund raising. The old political saying about the 'Four I's' is still appropriate: Get them interested, informed and involved—then get them to invest."

This is a pivotal year for corporate PAC's. They have proven they can raise campaign funds for candidates ideologically attuned to their interests. Still to be tapped is the enormous potential for providing political manpower. PAC's had an impact in 1980. This year they must prove staying power and show they really can make the difference.

# **One PAC's Success Story**

The Baltimore Gas & Electric Company's political action committee boasts an impressive 1980 track record: Its funds helped 78 percent of its 33 congressional candidates to win election.

But a high win ratio is not the BG&E PAC's objective. "We seek above all to extend financial assistance to

worthy candidates who especially need it," says George Gephart, manager of public affairs, "and that frequently means backing a business-oriented challenger in an uphill fight against a firmly entrenched incumbent with a sorry voting record but a well-filled campaign chest. To lose in such circumstances is no disgrace, but to shy away from the battle would be."

The PAC bases its support on a candidate's voting record or stated position on major national issues. "This seems to us the only reliable indication of what may be expected



George Gephart

in the future," says Gephart. In 1980, 70 percent of BG&E's winners were Republicans and 30 percent were Democrats.

Gephart explains the PAC's intentions: "Our members ask for nothing in return that will not be shared by their fellow citizens everywhere. If that is selfinterest, it obviously is

the most enlightened variety imaginable. We are a purely voluntary group—men and women who give because they wish to."

Over half of those who contributed had never given politically before, and in a recent survey 77 percent endorsed the PAC and said business employes should become "more involved in the political process."

PAC contributors, Gephart concludes, "feel an urgent obligation as informed, conscientious citizens dedicated to the national interest to participate in determining America's future."

Besides, once in office, legislators tend to pay attention to anyone representing a sizable constituency, whether business or labor. Votes count a lot more than money.

Unions have always recognized the value of numbers at the voting booth. The basis of the union PAC movement continues to be political education, including publishing voting records of congressional officeholders and staging registration and get-out-the-vote drives.

If political programs are judged by the degree of political participation they generate, AFL-CIO's COPE is the most effective in the field. It claims Commission as spent for internal partisan communications in the last election was spent by the unions. This spending category includes the costs of distributing campaign literature, inviting candidates to appear at meetings of members, funding phone banks, and conducting partisan get-out-the-vote drives.

Eight of the top 10 communications spenders were unions, which disbursed a total of \$2.1 million. The others were the National Rifle Association, with just over \$800,000, and the Chamber of Commerce of the United States, with just under \$159,000.

NATION'S BUSINESS · MAY 1982





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# Small Business Speaks, Government Listens

The clout is there. It's a matter of using it effectively.

By Michael Thoryn



Small business people are heard by lawmakers and administrators. Here, Commerce Secretary Malcolm Baldrige gets an earful.

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W HEN Rep. Harold Rogers (R-Ky.) wanted his constituents' views on the impact of government regulation, he set up a task force to sound out grass-roots opinion in his home district.

"The response was overwhelming," he recalls. "Almost 800 business men and women became involved in a series of meetings that resulted in a mammoth report... on the need for specific regulatory reform."

Rogers cites that experience as evidence of the extent to which small business people in particular have come to realize that personal political activism is necessary if many of the problems facing them as entrepreneurs are to be solved.

And their impact is being felt.

More than 85 percent of members of Congress who responded to a recent survey said small business involvement in their 1980 election campaigns was important, and 91 percent said they expected even greater involvement in this year's elections. The survey was conducted for NATION'S BUSINESS by the Center for Small Business of the U.S. Chamber of Commerce.

The legislators' responses also made it clear that the most effective way for small business to make its views known is to contact senators and representatives in person, close to home.

Nearly two thirds of the lawmakers said meetings with constituent groups in their home areas were most helpful to them in obtaining grass-roots opinion before making key decisions. More than 60 percent ranked as second in helpfulness home-area meetings with individuals. Personal letters represent 77 percent of contact, but members of Congress rank them third in terms of helpfulness.

Small business can also be more effective in seeking to influence congressional policy decisions, senators and representatives say, if their communications:

- Give concrete information on how they are directly affected by an issue.
- Offer their views early in the legislative process.
- Present a united front before asking a legislator to support a specific position.

The increasing participation of small



Grass-roots organizing is the key to political effectiveness, says Eamonn McGeady, legislative chairman of the U.S. Chamber's Small Business Council.

business people in the political process resulted from belated recognition that it was in fact possible to control many forces hindering or even threatening their enterprises, forces that often had their origins in Washington.

The clout was there. It was a matter of using it.

Small business has become a big hitter on Capitol Hill because "it's the largest employer in every congressional district," says Rex V. Jobe, a Texas businessman who serves on the U.S. Chamber's 62-member Small Business Council, "Small business people are the people who elect Congress and the people who can hold a representative's feet to the fire,"

Rep. Bill Gradison (R-Ohio) says smaller firms have become especially attuned to economic-policy activity in Washington because they are "highly susceptible to overall economic ups and downs. They have fewer resources to survive cyclical downturns and are far more likely to fail."

One landmark in the small business march toward intensified political activity was the 1980 White House Conference on Small Business, which brought 1,500 business delegates to Washington to draft a legislative agenda listing the goals of this important sector of the economy.

Tax and regulatory policies were high on the list of concerns.

The White House Conference and the activities leading up to it showed small business people that they would be heard if they used traditional grassroots organizing methods, says Eamonn McGeady, president of Martin G. Imbach, a marine construction firm in Baltimore, and legislative committee chairman of the U.S. Chamber's Small Business Council.

owever, person-to-person district meetings and trips to Washington take time that a small firm executive can find difficult to spare. And small business owners are often reluctant to go along with policy decisions of broad-based organizations.

Says McGeady: "If there were a single issue on which all small business absolutely agreed and went to their legislators with one clear voice, the response would be overwhelming." More often, say congressmen who responded to the survey of small business political clout, they listen carefully both to regional and national groups and to individuals. But when each message is somewhat different, congressmen hesitate because they're looking for unanimity.

Rep. Norman D. Shumway (R-Calif.) puts it this way: "I sometimes have a difficult time establishing the identity of small business. There seems to be no unified voice. I believe we would all benefit from greater uniformity and a clearer identity."

Still, it is better for the small business person to speak up and not wait for a consensus, particularly under today's troubled economic conditions.

Like the U.S. economy as a whole, the health of small business has been tested recently. The Small Business Administration's Annual Report on Small Business and Competition states that "bankruptcies and business failures rose almost 30 percent in the last two years. High interest rates have exacerbated borrowing risks, and inflation has made it difficult for small firms to replace assets and to continue to hold inventories without excessive borrowing."

There have been political victories despite the tough times.

Small business played a big role in electing Ronald Reagan and other probusiness candidates in 1980. The House and Senate Small Business Committees, formerly considered backwater assignments, now have small waiting lists for membership and push along important legislation. Some members know firsthand the concerns of small business executives: Reps. Hal Daub (R-Neb.) and Buddy Roemer (D-La.), who serve on the House committee, have run their own firms.

Other evidence of the advantages of the increasing clout of small business:

- The SBA's Office of Advocacy has grown into its role as defender of small business interests at other government agencies, particularly in its aggressive monitoring of the Regulatory Flexibility Act. The act requires federal agencies to tailor regulations to small firms' ability to comply.
- The Office of Advocacy also has great hopes for the Equal Access to Justice Act, in effect since October.
   Equal Access aims at reining in litigation-happy agencies; Firms with a net worth of under \$5 million or fewer than

500 employes can recover legal fees from an agency if they challenge a tax or regulatory ruling and win.

· Major portions of last summer's Economic Recovery Tax Act were designed with small business in mind. The three-year 25 percent personal tax reduction benefits most small businesses-90 percent of them are sole proprietorships, partnerships or Subchapter S corporations (25 or fewer shareholders) and pay tax at individual rates. The lowering of the maximum capital gains rate from 28 percent to 20 percent (it was 49 percent until 1979) has already freed more venture capital for small business start-ups. And corporate tax rates drop to 16 percent on the first \$25,000 of income and 19 percent on the next \$25,000 this year and to 15 and 18 percent, respectively, in 1983.

McGeady of the Small Business Council says the future would look

# **Small Business: A Profile**

Of 11 million businesses in the U.S., about 10.8 million—more than 98 percent—are considered small by the Small Business Administration.

In fiscal 1981, small businesses on average realized a before-tax profit of 4.6 cents per sales dollar and an after-tax profit of 2.6 cents per sales dollar. For 1980 the figures were 6.5 and 4 cents. For large businesses, 1981 before-tax profit was 6.6 cents (compared with 7.9 in 1980), and after-tax profit was 5.2 cents (compared with 6 in 1980).

The SBA, an independent federal agency, was formed in 1953 to assist, counsel and champion American small business. It has 4,300 employes working in a central office in Washington and in 110 offices scattered across the country. Every state has at least one SBA office.

### Employment

Small business accounts for about half the total U.S. employment, and those 50 million jobs provide the livelihood for more than 100 million Americans.

Businesses with fewer than 20 employes create two of every three new jobs. About 80 percent of new jobs were created by firms with 100 or fewer employes.

Nine of 10 small businesses have fewer than 10 employes.

Four of five U.S. businesses are sole proprietorships, and virtually all of these are small businesses.

### Innovation

The SBA says small businesses have been responsible for more than half of the new product and service innovations developed in this country since World War II. Almost every energy-related innovation of the past century has come from small business—the air conditioner, the gasoline engine and the electric light are good examples, the SBA says.

### **Problems**

Poor management is the greatest single cause of business failures. New firms with fewer than 20 workers have a 37 percent chance of surviving four years and only a 9 percent chance of surviving 10 years.

An SBA survey in 1980 estimated that the nation's small businesses spent \$12.7 billion annually to fill out forms required by federal, state and local governments. There are 103 federal agencies that could require small businesses to fill out at least one form.

### Management assistance

The SBA offers self-help books as well as workshops and courses. In fiscal 1981, 350,000 people took advantage of SBA courses. Personalized counseling is available from the Service Corps of Retired Executives and the college-based Small Business Development Centers and Small Business Institutes, Hundreds of community colleges and a few universities offer practical courses ranging from "Should I Start a Business?" to "Making Effective Use of a Minicomputer." In the private sector, Control Data Corporation offers management, financial and technical assistance at 100 Control Data Business Centers nationwide.

### Minorities

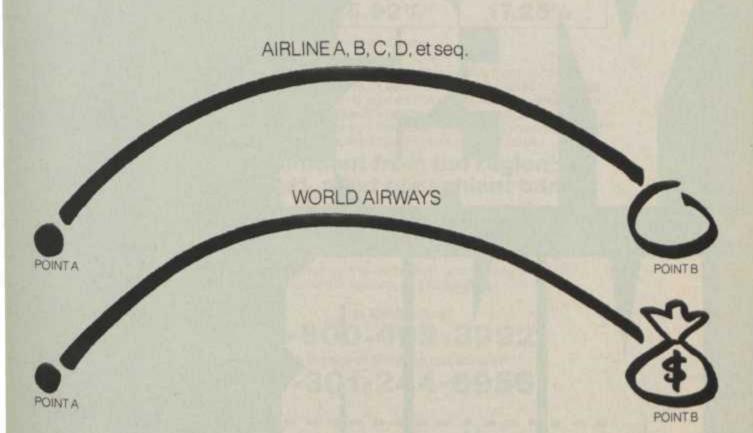
The most current data from the Census Bureau show that in 1977 women owned 702,000 businesses; blacks, 231,000; Hispanics, 250,000; and Asian Americans, American Indians and other minorities, 111,000.



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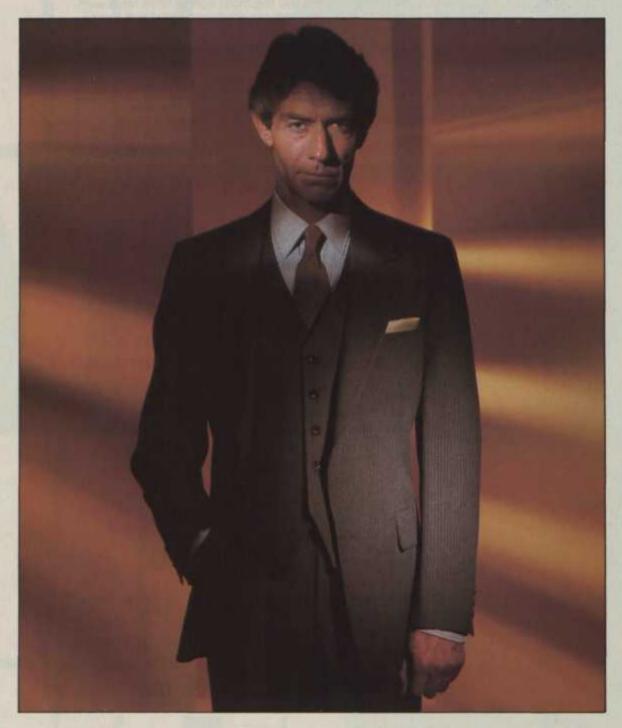
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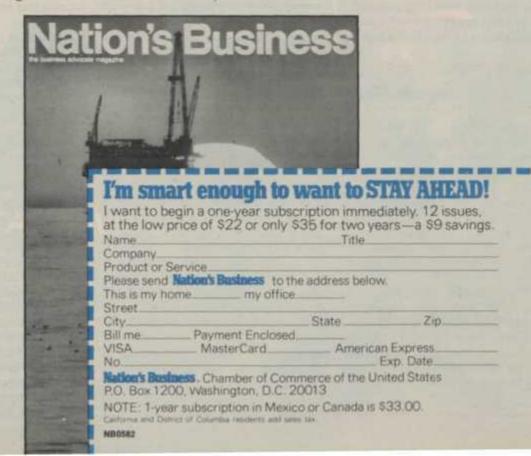
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much brighter if interest rates, "the No. 1 problem," could be brought down. Among the council's other goals:

- Reduction of corporate income tax rates on the first \$500,000 of corporate income. That would free more money for capital formation.
- Further reduction in capital gains taxes.
- Easing of tax rules on small business rollovers. Small firm owners would be able to defer taxes if the proceeds of a sale were reinvested in another business.
- Passage of the administration-backed Prompt Payments Act, now considered a good bet. If approved in close to its present form, the act would require agencies to pay their bills within 45 days or be assessed interest charges on delinquent accounts. The General Accounting Office estimates that 39 percent of the government's bills are paid late; that translates into about \$11 billion a year in late payments to small firms alone.
- Vice President George Bush's Task
  Force on Regulatory Reform has developed a small business regulatory hit list.
  Two targets: Employee Retirement Income Security Act rules that Bush says are "driving small businesses out of the pension plan area," and complex paper work requirements that discourage small companies from selling abroad.

More rapid growth in small business political clout is held back by a practical



Rep. Harold Rogers (R-Ky.) meets with members of his regulatory reform task force. Small business is most influential in meetings close to home, congressmen say.

consideration: Running a small firm is a full-time job.

"Small business people are becoming advocates, but it takes so much time to be even routinely active," says Elaine W. Donaldson, who runs 20-employe Donkirk Tool Supply, Covina, Calif., with her husband. Donaldson has served as Covina's mayor and a director of the California Chamber of Commerce, and she is a candidate for the

State Board of Equalization, which supervises California's tax system.

She has time for those civic affairs because her business is well-established and her spouse can fill in for her. Not so for Harprit Sandhu of Champaign, Ill. Sandhu, an engineer and inventor, has developed a computer-controlled robot arm that he hopes will be "the Model T of robots."

His biggest problems at Sandhu Machine Design: access to money for expansion and finding time to manage. "I'm always needed for other things." Sandhu, who says he is too busy to get involved with political activism, is far from alone.

Gerry Dodd, head of a four-employe management assistance firm, The Maine Idea, in Pittsfield, Me., works with "micro-enterprises—the self-employed, service people, small farmers, and mom-and-pop shops with less than \$200,000 in annual sales." Says Dodd, "These business owners put in 12-hour days. They don't have much time for things like political action that don't bring immediate, tangible results."

Yet thousands of small business people across America are making the time to serve on committees, buttonhole officials, even run for office. "A lot of public officials are beginning to recognize that innovative, job-creating small business is the driving force in the economy today," says Rex Jobe.

# **Small Firms' Net Growth**

Even as the rate of business bankruptcies and dissolutions rises, new small businesses are opening their doors—at a higher rate.

The Small Business Administration says 575,000 businesses were incorporated in the fiscal year ending last September 30. That's 10 percent more than the previous year. The total for bankruptcies and dissolutions: about 280,000.

David Birch, a Massachusetts Institute of Technology researcher respected for his studies on small business formation, says, "Smaller businesses more than offset their higher failure rates with their capacity to start up and expand dramatically." Birch told the Senate Small Business Committee: "The culprit in declining economies is not job losses but the absence of new jobs to replace the losses. Boston and New Haven are not losing more businesses and jobs each year, in percentage terms, than Houston. In fact, Houston is losing slightly more.

"The difference between Houston and New Haven or Boston is that Houston is attracting a much greater share of new businesses and expansions of existing businesses. It is Houston's strong offense rather than Boston's or New Haven's weak defense that is making the difference."

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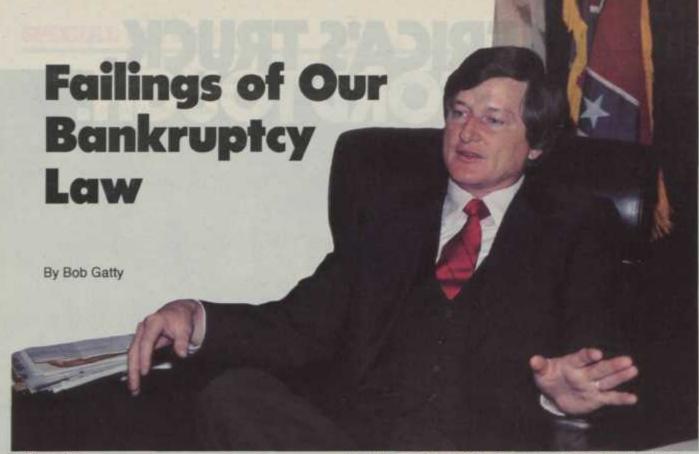


PHOTO MARY ARRESTA

Rep. Billy Lee Evans (D-Ga.), sponsor of a bill to close loopholes that make it easy to walk away from debts, says that for too many people today, paying what they owe "is no longer important."

As hundreds of thousands of customers are declared bankrupt, businesses demand legislative change.

OLEMAN'S TV & Hi Fi Center in Muskogee, Okla., is losing sales because local finance companies are increasingly reluctant to make unsecured loans.

In Silver Spring, Md., a single man with a \$30,000-a-year government job walks away from thousands of dollars of debt.

Sears, Roebuck & Company last year wrote off \$51.9 million owed by individuals who had declared bankruptcy, compared with \$19.7 million just two years earlier.

Nationwide, businesses lost more than \$6 billion last year because of the sharply escalating use of bankruptcy proceedings as an alternative to paying bills.

The root of all those problems facing a wide range of retail and credit companies is, the companies say, a federal bankruptcy law that fails to recognize the changes in credit policy that have taken place since the U.S. Bankruptcy Code was enacted in 1898.

But a major new effort has been mounted to bring the statute up-todate.

Organizations representing retailers and financial institutions have formed the National Coalition for Bankruptcy Reform. Its goal: establishing in federal bankruptcy law the principle that individuals with anticipated income sufficient to pay off debts should be required to do so.

The coalition is working for enactment of legislation sponsored by Rep. Billy Lee Evans (D-Ga.) in the House and Sen. Robert J. Dole (R-Kans.) in the Senate.

Raymond A. Kennedy, Sears vice president and general credit manager, explained the problem in congressional committee testimony on behalf of the American Retail Federation and the National Retail Merchants Association:

"At one time, it was unheard of to extend credit to an individual without significant assets to secure the debt....Today's credit manager looks instead to an individual's willingness and ability to repay out of future income." Though the Bankruptcy Reform Act of 1978 revised the original asset-based statute, it did not incorporate the income approach. Actually, the 1978 changes made it easier for individuals to file for bankruptcy. Much of the current wave of credit losses and related problems stems from enactment of that measure.

Only 10,000 individuals were declared bankrupt in this country in 1946. The number climbed to 255,000 in 1976 before falling off until the new legislation was adopted two years later. The total then soared—228,532 in 1979, 409,798 in 1980 and 454,645 last year.

HAT TREND HAS a double impact on business. For one thing, lenders and retail companies that maintain their own credit operations suffer heavy, direct losses.

Many have responded by tightening up on standards for loans. Finn M.W. Caspersen, chairman and chief executive officer of the nation's second-largest finance company, Beneficial Corporation, Morristown, N.J., reports:

"Over the past two years, we've deliberately dropped more than a million accounts. Most involve loans of \$1,000 to \$1,500—all unsecured. That means a deliberate shedding of one third of Ben-

44

eficial's consumer loan accounts and a drop of about \$150 million per month in receivables. Not since the Great Depression have we seen such a decline in unsecured consumer loans."

James C. Straw, assistant vice president for government relations at Avco Financial Services, Newport Beach, Calif., says the bankruptcy surge "is causing all of us to take a longer and closer look at all applicants. Our portfolio is swinging toward the secured loan."

The second impact of the bankruptcy trend is on businesses that look to outside lenders to finance customer purchases. Rudy Coleman, owner of the Muskogee TV store, comments, "More and more, the finance company says, "Sorry, unless you can

put up clear title to a car or some other asset, we can't lend the money."

He is concerned about the long-range effect of the bankruptcy problem: "We have to look to younger Americans for our future. Their strongest asset is their future earnings. If they can't get financing on that basis, we're in big economic trouble."

The extent to which current law ignores income potential is clear from a look at the two principal avenues for filing for personal bankruptcy.

Under Chapter 13 any individual or unincorporated business whose unsecured debts are less than \$100,000 may file for bankruptcy by working out a repayment plan—sometimes as low as a nickel or a dime on the dollar—which, if approved by the court, will allow the individual or business to settle the accumulated debt and start over with a clean slate.

Under Chapter 7—so-called straight bankruptcy—a trustee assembles the debtor's assets. The debtor is allowed to keep a certain amount of property. Any holdings beyond the specified exemptions are liquidated and the proceeds divided among creditors. But when there is nothing left over, all debts are discharged. Once someone has been declared bankrupt under



Bankruptcy law still focuses on assets, but today's credit manager focuses on income, Sears executive Raymond Kennedy told a congressional committee.

Chapter 7, he must wait six years before he can file again.

In the Bankruptcy Reform Act, Congress sought to incorporate modern commercial practices and also encourage the rehabilitation of consumer debtors by strengthening their right to a fresh start.

N ADDITION to making it easier for individuals to file for bankruptcy, the act allows them to keep more property than did previous legislation. A bankrupt may keep up to \$7,500 equity in a home or other real property and up to \$1,200 for a motor vehicle. He also may claim bankruptcy exemption from debt payment of up to \$200 per valuable household item, \$500 in jewelry, \$750 in tools used in a trade or books used in a profession, and \$400 worth of anything else.

For married couples who walk down bankruptcy lane together, the exemptions are doubled.

Under the Evans and Dole legislation, these federal exemptions would be eliminated, leaving the matter up to the states. (The 1978 law permitted states to "opt out" of the federal exemptions and employ their own. More than 30 have done so, and in most cases they have been less liberal with bankrupts—



Finance companies that were hungry for business helped create the repayment problem, argues lawyer Roy Zimmerman.

though not enough to stem the bankruptcy tide.)

From the business perspective, action on the legislation appears promising in the Senate, where a Senate Judiciary subcommittee has approved the Dole proposal. The full committee is expected to send the measure to the Senate floor for action.

The House is another story. There, Judiciary Committee Chairman Peter W. Rodino, Jr. (D-N.J.), also chairs the Monopolies and Commercial Law Subcommittee, which has jurisdiction over the measure. Rodino was the prime author of the 1978 law.

He maintains there is "little evidence to support any assertion that the increasing number of bankruptcies in our economy in recent months has been caused by the 1978 bankruptcy law. Such an assertion ignores the severe economic hardship suffered by numerous individuals and businesses during this period."

Moreover, Rodino contends that the law made "no significant changes in consumer bankruptcy rights."

He argues that the "tremendous increase in consumer credit" is a factor that must be considered along with the rate of growth in consumer debt, which he says has greatly exceeded the growth in personal income and personal bankruptcies in recent years.

"While personal bankruptcies increased 76 percent from 1970 to 1981," notes Rodino, "consumer credit outstanding rose 214 percent."

BUT THE COALITION working in behalf of Evans' bill has succeeded in garnering 261 cosponsors—well over half the 435-member House of Representatives. Responding to pressure from many of these congressmen, Rodino called hearings on the issue in March. Further hearings are scheduled for later in the year.

"These are difficult economic times," says Rodino. "Regrettably, it is likely that in the months ahead many businesses—especially small ones—and individuals will be forced to seek bankruptcy relief. While all of us agree that those who can afford to repay their debts should do so, it is also important that bankruptcy relief not be denied those who legitimately need it."

Sears' credit chief Kennedy points out, however, that a large number of debtors are "having affordable debts discharged in bankruptcy—debts which could be paid in whole or in part through commitment of a portion of the debtor's future income."

Evans, who practiced bankruptcy law before coming to Congress six years ago, argues that his measure would not deny bankruptcy relief to those truly in need.

A Purdue University study, he notes, shows that about one in four debtors filing for Chapter 7 bankruptcy in 1981 could have paid their debts in full had they chosen to do so under a Chapter 13 repayment plan—and even more could have paid a substantial portion of their indebtedness.

In fact, the study says businesses lose \$1.1 billion annually to bad debts that could be paid.

"I am deeply troubled by the number of debtors who appear to be taking advantage of the bankruptcy process," says Evans. "Today it is fashionable for these debtors to take straight bankruptcy—not as a matter of need, but as a matter of convenience." Evans believes that moral values are changing in America and that the stigma once associated with bankruptcy no longer exists. "It's a definite pattern in our society," says the congressman. "Payment of one's debts is no longer important."

Part of the blame for the increase in people choosing Chapter 7 over Chapter 13 must lie with the attorneys involved, Evans contends.

Some attorneys simply don't want to be bothered with the more complicated Chapter 13 proceedings, he says, and others may not be expert in bankruptcy law. A third factor, according to Evans, is attorney advertising, O.K.'d by the Federal Trade Commission in 1978.

Roy B. Zimmerman, a bankruptcy attorney in Washington's Virginia suburbs, disagrees. "The ones who are screaming loudest are the ones who contributed most to the problem," he charges.

Not long ago finance companies were all but begging people to use credit, Zimmerman says. "Then, when the economy got so bad that the people couldn't afford to pay back, the companies wanted to change. The people are fighting back by declaring bankruptcy. The creditors just were hoisted with their own petard."

Zimmerman says that everyone who walks through his door seeking bank-ruptcy assistance discusses with him the possibility of paying at least part of his debts and using Chapter 13. The proposed bill, he contends, would be a "bureaucratic mess—a nightmare."

He denies that attorney advertising for bankruptcy services has contributed to the increase in bankruptcies. "People would have gone to lawyers anyway," says Zimmerman. "Once a creditor starts harassing people, garnisheeing their salaries, calling them in the middle of the night, they are going to get help."

Herbert T. Wolf feels harassed not by creditors but by debtors—debtors who declare themselves bankrupt. Wolf is a vice president of Wolf Furniture Enterprises of Altoona, Pa., which has 22 stores in central Pennsylvania. He estimates that the firm's bankruptcy losses tripled from 1979 to 1981. As a result, Wolf's has been forced to deny credit to customers it would not have turned down earlier. It has also reduced the term of a credit contract from 24 months to 15 months.

"What protection does a creditor have?" Wolf asks. "It shakes your faith in the whole system."

# The New Look of the Bankrupt

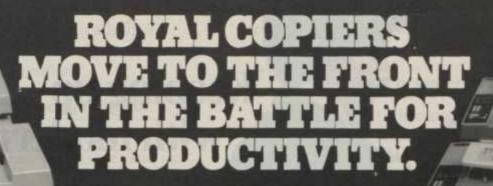
Does the current law make it too easy for people to walk away from their debts? Yes, according to lenders, who are behind the drive for bankruptcy reform legislation.

Landmark Financial Services, a finance company headquartered in Silver Spring, Md., recently gave the House Subcommittee on Monopolies and Commercial Law these examples of Chapter 7 bankruptcies:

- A single woman in her mid-30s has a \$20,000-a-year government job.
   She has no dependents, and she pays \$260 monthly for rent. She owed \$3,600 for a car plus \$7,900 in other debts—including \$2,815 to Landmark. Under Chapter 7 bankruptcy proceedings, her debts were dismissed.
- A single man with a \$30,000-ayear government job has no dependents and pays \$270 per month in rent. He had debts of \$16,500, including a loan for a used Cadillac Seville and charges on local store credit cards and Carte Blanche. His balance with Landmark, \$2,000, was dismissed.
- A couple with no children has an income exceeding \$20,000 per year.

Total debt was \$14,150, including \$8,000 for a new sports car acquired after they borrowed from Landmark. They reaffirmed the debt for the sports car, and the rest of their debts were dismissed.

- A two-paycheck couple with no children has an income of nearly \$19,000. Their rent is \$177 per month. With \$8,900 in debt they filed under Chapter 13 and worked out payments of \$200 monthly. Before making the first payment, they changed attorneys, switched to Chapter 7 and paid nothing.
- · A couple with one child has a family income of \$24,600. The husband was forced to file for bankruptcy under Chapter 13 because he had filed under Chapter 7 less than six years before. Under Chapter 13 he paid \$50 weekly for 11 months. Then the six-year period expired. He flipped over to Chapter 7, and his debts of \$9,600-including \$1,000 to Landmark-were dismissed. Landmark officials explained that they lent the man money even though he had previously declared bankruptcy because he had reaffirmed his debt to them and paid it.



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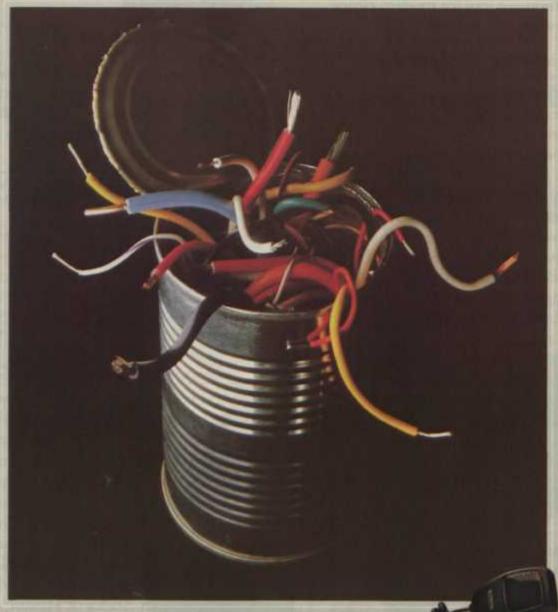
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GENERAL & ELECTRIC

# **Tarkenton: Profits Are Like Points**

RAN TARKENTON is still scrambling. Not in the backfield of the Minnesota Vikings, hotfooting out of the grasp of onrushing linebackers; he stopped quarterbacking three seasons ago. But now from coast to coast, as board chairman of Tarkenton & Company, an Atlanta-based business conglomerate with a portfolio of enterprises as thick as an NFL playbook.

"Business is a game, and games are fun," he says. "To me, profits are like putting points on the board."

If so, Tarkenton & Company, started as a management consulting firm during a football off-season, has an entrepreneurial win streak going. The firm's clients number 200 major corporations, and it grosses \$2 million annually.

Management consulting has been the seed. From it have sprouted a business data collection company, an equipment leasing business, an insurance company, a vacation and travel club, and an airline ticket jacket publisher—all profiting under the signal-calling of the 42-year-old ex-jock.

Tarkenton still holds professional football records for most passes attempted, most completed, most passing yardage and most touchdowns passing. But today he runs his "games" from a suite of offices devoid of any gridiron memorabilia. He confers with clients and conducts staff meetings in the comfort of a V-necked sweater (no shirt, of course), jeans and sneakers sans socks.

He hasn't abandoned his hustling ways. Every month he logs some 20,000 air miles, shuttling to television program recording sessions (he's a regular on "That's Incredible"), to ABC "Monday Night Football" broadcasts (as a frequent commentator), to company branches in Chicago and Los Angeles. Always his antennae are up: "I can't imagine there having been more opportunity in this country than I see out there today. Risk—you only have to stretch out and risk."

Francis A. Tarkenton first stretched out while still in short pants. He started his own transportation company with a



To Fran Tarkenton, today's entrepreneurial opportunities get a thumbs-up signal for those who will "stretch out and risk."

red wagon, hauling grocery bags for little old ladies. In college he sold life insurance, During his early years in pro football with the Vikings, later while he was with the New York Giants and then when he returned to the Vikings, he spent off-seasons with a trucking firm, a shipping company, a printing plant, the Coca-Cola Company and the advertising agency of Batten, Barton, Durstine & Osborn International.

By 1969, he had accumulated enough savvy to start Tarkenton & Company, the foresight to hire a knowledgeable professional to help him manage each new company, and the managerial skills to instill in his employes—now 100-plus—the importance of credibility. "Delivering what you say you are going to deliver is business' most important asset," he says.

That's the closest Tarkenton comes to textbook talk. Although he is chairman of a fund-raising drive at his alma mater, the University of Georgia, textbooks and economics courses are not his idea of how to make it in business.

"I got a business degree, and I'll tell you what it meant—nothing," he says. "Oh, maybe as a base of learning it helped me, but I learned about business on the street, knocking on doors, talking to people." He calls it being "street smart."

His airline ticket jacket company resulted from having street smarts. On a plane last April he fingered his ticket jacket, thought about declining airline profits and mused about how every passenger has such a jacket. "It gave me an idea, and the next month I called on 11 airline presidents in 10 days. I told them I wanted to print their ticket jackets free. They were paying from \$10 to \$18 a thousand. And I promised even to give them some money, for I proposed adding pages to the ticket jacket, selling ads and offering the airlines a percentage. They liked it.

"So I went to New York to find advertisers. I made some 400 phone calls and 70 to 80 personal presentations. I sold \$7.5 million in ads. I knew a printer in Chicago, so we formed the ticket jacket company. In October we were printing the jackets for most of the major airlines."

Today Ticket Holder Marketing prints 12 million jackets a month. Expected 1982 gross: \$15 million.

Tarkenton has been told that his name opens doors that would be closed to an unknown entrepreneur. "That's a copout," he retorts. "Success is not in a name, it's in having something of value to sell. No airline is going to buy something it doesn't think is a good thing. An airline doesn't succeed because it does favors for jocks."

Besides, he points out, many secretaries have never heard of Fran Tarkenton. "Getting into the front office never is easy. One secretary wouldn't let me near her boss, so the next morning I rented a limousine and caught him as he was leaving the house to go to work. I sold him on the ticket jacket idea on the drive to his office."

-Del Marth

# Getting Two Benefits For the Price of One

Tom York started out in one career that prepared him for another. His dual skills have been rewarding both for him and for AMF.

# AME

BEFORE he reached the pinnacle four years ago, W. Thomas York, 48, chairman and chief executive officer of AMF, Incorporated, was put to a test. Then president, he was asked to make a presentation to the firm's board of directors on the strategy he would pursue if he became the company's highest paid executive.

"The request made sense," he says.

"After all, I had been president only a relatively short time, and the board wanted to know more about me."

Tom York wound up spending an entire week of vacation in Spain preparing his remarks. "More boards ought to consider that approach before making major changes," he says. "They might learn some pretty interesting things."

His presentation was a hit. Less than a year later, when the then-chairman and CEO retired, York got the promotion. The game plan he laid out at that board meeting must have been a winner, too, because he's still following it. At the heart of it, York says, is a corporate strategy that may sound as uncontroversial and old-fashioned as motherhood, but it is what drives AMF: "We want to grow profitably and improve our balance sheet."

Headquartered in White Plains, N.Y., AMF had its beginning in 1900 when American Tobacco Company lost an antitrust suit and was ordered to spin off a group of patents and engineering divisions. For the next half century American Machine & Foundry Company, AMF for short, specialized in producing automated equipment for the bakery, food service, apparel, tobacco and tire industries.

Then came a major shift in direction. In the early 1950s, AMF engineers commercialized a device that automatically picked up bowling pins and set them back down. The development revolutionized bowling and helped launch a bowling boom on an international scale. Within a short time, AMF's line of bowling equipment became its cash cow.

AMF is still an undisputed leader in the manufacture of a wide range of leisure-time products, from yachts to handballs, and it intends to retain that distinction. But York is rapidly changing the company's profile. As recently as 1979, 66 percent of its revenues came from recreation-oriented products. Now, 54 percent comes from its industrial divisions, the most promising ones being energy products and services, specialty materials, and electrical and electronic products.

York's strategy is to steer AMF away from cyclical lines—weather, for example, influences ski equipment sales—and more toward industrial businesses that will yield a higher return on investment. One of the casualties was Harley-Davidson, the motorcycle manufacturer, which AMF recently sold. "The idea is to be able to grow in all conditions," York says.

The strategy is working like a charm. Last year, for example, AMF's income from continuing operations reached \$67.2 million on revenues of nearly \$1.3 billion, compared with \$53.8 million on revenues of \$1.2 billion in 1980. The company also achieved a debt-to-equity ratio of 40 percent, the lowest in recent history and several percentage points below the average for American industrial companies.

Return on net assets—an important measure of how AMF manages its 46 product lines—improved, too. To put the icing on the cake, the company's credit rating was upgraded last year. Though some corporate chiefs are concerned primarily with the profit and loss statement, York wants to see the broad picture of corporate strengths and weaknesses: the balance sheet. He believes that a healthy balance sheet is critical to a business' success—or its failure.

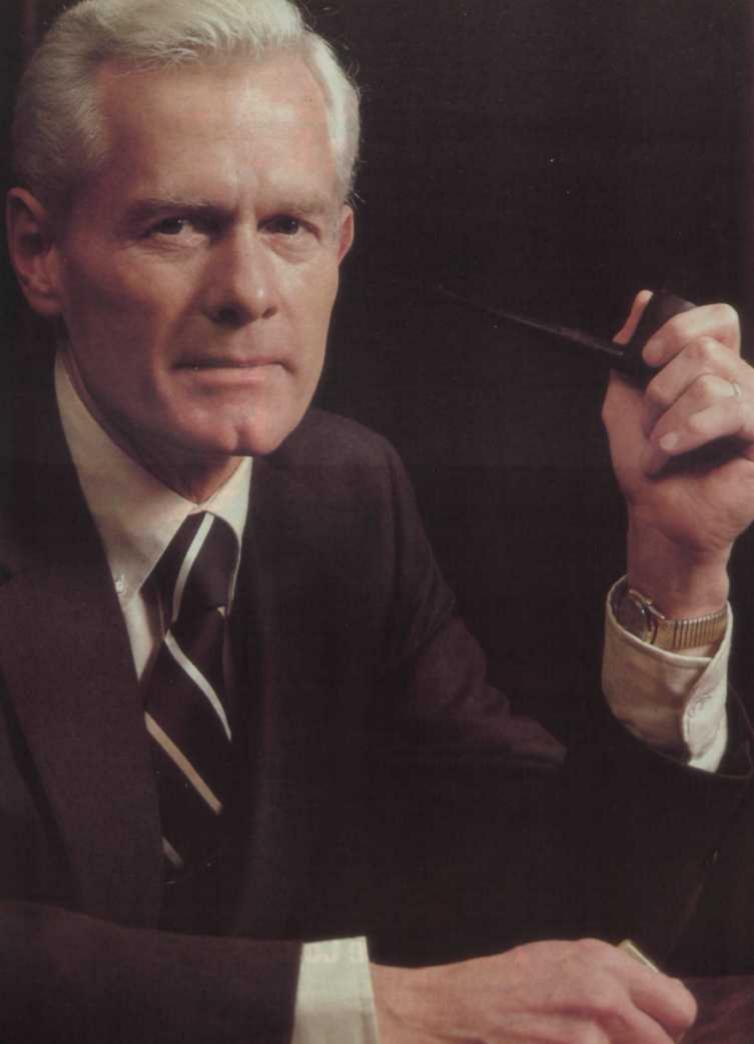
"We may see extremely volatile interest rates over the next several years, making it very difficult for businesses with weak credit ratings to borrow," he says. "I never want to see this company in a position where it is expanding but can't finance new growth."

Sound like an accountant talking? It is. York graduated from the University of North Carolina in 1955 with a B.S. in accounting, although he never really intended to become one. The degree was an insurance policy.

E GREW UP during the Depression in tiny Archdale, N.C. "My brother and I never went to bed hungry," he says, "but our family didn't have too many spending options, either." Until the Depression his father was a successful businessman, dividing his time between insurance and real estate. When the bottom fell out of the economy, he lost everything. Eventually, he found work as a letter carrier, York's mother worked as a bookkeeper.

"I wanted to learn a trade I could always fall back on," says York. "Accounting also offered me an opportunity to obtain an excellent business background. So I could get two things for the price of one."

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DALLAS

student, entered the Navy to fulfill a two-year commitment. He landed a shore assignment, the job of auditing contractors' reimbursement claims. "The experience was super," York says. He encountered no trouble deciding to leave the Navy at the end of his two-year hitch when he learned that his next assignment would have been aboard a destroyer.

A sympathetic commanding officer who was high on York's accounting skills suggested that York talk to the controller at Philco Corporation in Philadelphia about career opportunities. That eventually led to a job but not before York returned to his native South to earn an M.B.A. at his alma mater.

York started at Philco in 1958, and in the following 10 years he was promoted through a series of financial management positions—"clearly within my expectations," he says—but prospects for future growth dimmed when Philco was acquired by Ford Motor Company. "I concluded that a job change was in order," York says.

o sooner had he reached that decision than he received a letter from an executive recruiting firm asking whether he knew a suitable candidate for a high-paying position with a large New England company. York asked a friend to recommend him for the slot. The job, controller of Textron, would have been a big change for York: He was only 33 and a manager of financial analysis. "As you can see," he recalls with a chuckle, "I really had grand visions."

York's bid fizzled, but soon afterward a similar inquiry arrived from AMF, whose annual sales of around \$600 million then put it within the same size class as Philco-Ford. AMF was looking for a director of corporate accounting who could succeed the controller within a relatively short time. The job came through, and so did the controllership a year and a half later. In five more years, at age 42, York became the president and chief operating officer.

Two principles aided York in his ascent up the corporate ladder. "I adopted a philosophy early in my career that seems to have worked for me: Don't put off until tomorrow what you can get done today, and do what you believe is



When AMF Chairman and Chief Executive Officer Thomas York is on the court, he's concentrating on one thing: winning.

correct and don't worry about how your decision might be perceived by others."

York has another philosophy, too, about the length of tenure of CEO's: "Businesses need new blood at the top regularly, otherwise they get stale." He pledges that he'll be gone well before he reaches his 60th birthday.

But for some time to come, York will be concentrating on strengthening AMF's own future. He is aiming for a 60-40 product mix, in favor of the industrial side, and for good reason. The energy services and products segment alone has been growing at a compound annual rate of 30 percent.

"York has done an outstanding job of managing AMF's assets to maximize profits," observes Dennis Rosenberg, a securities analyst with Oppenheimer & AMF-sponsored youth games provide York with an opportunity to work with young people, something that he values.

PEN RECREATION

Company, New York. Within five years, York also wants his company to be earning at least 20 percent on stockholders' equity; the current figure is 15 percent.

York is committed to improving productivity. He sent a team of AMF executives to Japan a few months ago to find out all they could about Japanese production techniques.

They came back talking about an important difference between the Japanese and American approaches to manufacturing. There, design engineers work alongside manufacturing specialists, so that right from the start detailed thought is given to the most economical way to manufacture a new product.

"Here," York says, "designers generally produce a blueprint and then turn it over to another group and let them figure out the best way to make it." York expects to apply this insight to AMF's operations.

"Tom York is one of the most persistent people I know," says William Bricker, chairman and chief executive officer of Diamond Shamrock Corporation; York serves on the board of Diamond Shamrock and the boards of several other firms. "When he gets an idea, he doesn't make a lot of noise about it, but you just know that things are happening."

Silver-haired and reed-thin, York exudes energy. "Exercise is very stimulating for me, mentally as well as physically," he says. He has the phy-

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sique of a marathon runner and the stamina to match.

An avowed "physical fitness nut," York begins his day at about 6 a.m., wherever he may be, by doing 75 situps and 110 push-ups and jogging in place the equivalent of two miles. All this is done as he watches the news on television. "Remember? I like to get two things for the price of one."

Never at a loss for leisure pursuits, York plays racquetball and rides his motorcycle—he owns the biggest Harley-Davidson—on weekends. He does all his own yard work and used to garden until he figured out that with the time and money he was spending growing tomatoes, each probably cost him about \$7 by the time it ripened. "Not one of my better investments," he quips.

York also swims and plays tennis every chance he gets. "He's a savage competitor," says an associate.

With their two sons, ages 20 and 21, and daughter, 15, away at school, York and his wife, Patricia, are empty-nesters. The York home, in New Canaan, Conn., is outfitted with tennis courts and a pool. Patricia York designed the three-story structure and did the land-scaping.

"She wasn't quite the general contractor but almost," her husband says.
"I call it French, Mediterranean, Southern, Colonial; there's something there for everybody."

York has given much thought to his retirement plans. Reading is high on the list, especially anything on the Civil War. "The polite terminology is the War Between the States, but in some parts of the South we like to refer to it as the War of Northern Aggression," he says tongue in cheek.

RAVELING is also on the agenda. Although he now spends nearly half his time visiting AMF's plants in the U.S. and in 11 foreign countries, he rarely sees more than hotel meeting rooms. "I've only recently realized that though I've been to a lot of places, I have seen very few things," York says.

He's also going back to school, not with the idea of earning a degree, but simply "to round out my education." York was so busy with ROTC and fulfilling course requirements for his accounting major that he didn't take a single elective. "Music and art appreciation, plus a lot of history courses, are the kinds of subjects I'd be interested in taking," he says.

York suspects that he might enjoy

teaching part-time as well, perhaps in an M.B.A. program somewhere. "He draws out the best in people, so I imagine he would make a very effective instructor," declares Barbara Debs, president of Manhattanville College, on whose board of trustees York serves.

Business consulting is another idea he is toying with. "I know some CEO's who head up corporations with sales of a billion dollars or more who don't even have a game plan," he says. "A company's day-to-day activities should have

"I know some
CEO's who head up
corporations with
sales of a billion
dollars or more who
don't even have a
game plan."

relevance to what kind of business it wants to be in the future."

Another interest of York's is working with young people. "It's something I feel very strongly about," he says. As chairman of the Hugh O'Brian (actor of Wyatt Earp fame) Youth Foundation, he helps bring together a select group of high school sophomores with distinguished leaders from education, government and business. "It provides these young men and women with a realistic look at what makes the American incentive system tick, and it encourages them to think for themselves," York says. This year the foundation will sponsor 6,500 teen-agers from across the country.

He also interacts with young people through the United States Youth Games, which AMF sponsors. The idea is to organize underprivileged youngsters from metropolitan areas in a series of athletic games, starting on the local level and culminating in national contests.

"It provides a natural identification with AMF, and it's something very worthwhile for the kids," says York. "And as I always say, whenever you can get two things for the price of one, that's not all bad."

-Tony Velocci



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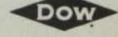
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# Why Europe Bemoans U.S. Interest Rates

Europeans say America is endangering their economies. Replies the administration: Put your own house in order.

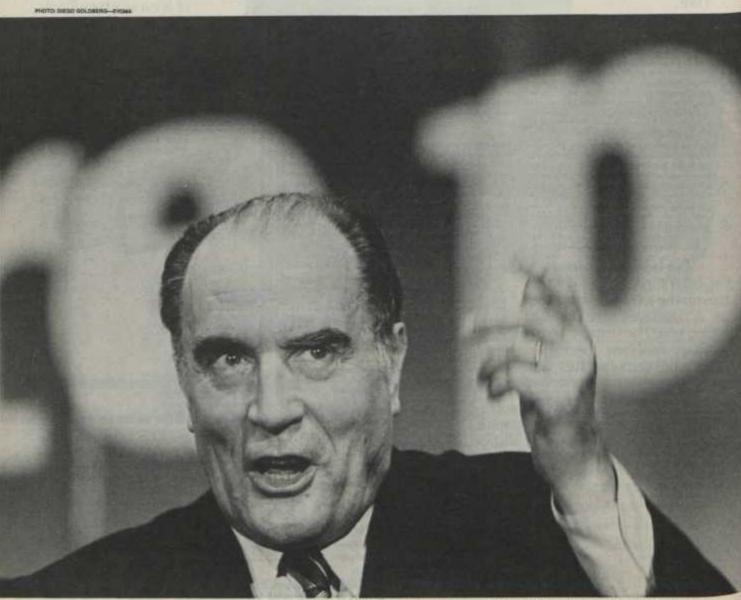
By Del Marth

WHEN Queen Beatrix of the Netherlands arrived at Amsterdam's historic Concertgebouw to hear the National Symphony Orchestra from Washington, she was greeted by a band of demonstrators with hand-scrawled signs reading, "Trix, Don't Go to the U.S."

The protest by some 20 political activists was small by contemporary standards, and the Queen's plans to visit the United States twice this year remain unchanged.

But the demonstration did spotlight a growing wave of anti-American sentiment in many parts of Europe—a wave that is not by any means confined to youthful demonstrators.

Criticism of the U.S. is being heard



While neighboring European countries tighten government spending, France under Socialist President François Mitterrand has set off in a different direction.

with increasing frequency in the parliaments, ministries and executive suites of Europe from members of the generation that knows firsthand the crucial role of America in World War II and its aftermath.

Their specific concern today is related to U.S. economic policies. Many leaders of Western European nations see their countries' political and economic systems endangered by the persistent high interest rates in America. Though numerous U.S. economists say the altitude of those rates is caused by several factors—among them inflation fears and money growth volatility, as well as American budget deficits—the Europeans put the blame primarily on U.S. budget deficits, current and projected.

West German Chancellor Helmut Schmidt asserts, "Europe is in greater danger than the Americans have understood so far. The fabrics of our economies and societies are endangered by the deepest recession since the 1930s."

David Watt, director of Britain's Royal Institute of International Affairs, sees the danger of "a major calamity, not just for the West but for the whole world" as a result of American monetary policy.

H.O. Ruding, a managing director of the Amsterdam-Rotterdam Bank, tells an American visitor that his country "is unhappy, to put it mildly, with U.S. high interest rates....We fear your deficit is so substantial that the eventual outcome will be more negative on your economy and Europe's than is forecast."

Dan Geerts, senior economist at the Credit Bank of Belgium in Brussels, says that high U.S. interest rates are "accentuating our problems."

ND President François Mitterrand of France put complaints about U.S. economic policies and their impact on the European economy high on his agenda when he visited President Reagan in Washington earlier this year.

Basically, the many complaints from nations with normally close ties to the United States stem from this perception: America's budget deficits keep U.S. interest rates high, drawing European capital needed to regenerate economic growth at home.

The U.S. interest rate level, the argument continues, forces European countries to keep their interest rates high to

compete in capital markets. But those rates can become counterproductive, stunting economic growth and consumer spending, the European leaders say.

America's government, fully aware of the consequences of persistent high interest rates, is not unsympathetic to the European concerns.

But the Reagan administration has two principal responses to the European complaints:

- Internal policies, such as sharply increased spending for social and other programs, are primarily responsible for the economic woes of the European nations that blame Washington for their troubles.
- Rather than abandon its economic policies, the Reagan administration will



Queen Beatrix rules a country in better economic shape than most.

maintain its present course, leading to an eventual interest-rate decline and economic surge that will benefit Europe along with the U.S. itself.

Patience, the United States counsels its allies.

And even as that word goes out from Washington, an American observer visiting financial centers of Europe finds wide variances in economic health, variances unlikely to be the result of American actions. Here's a capsule report from four key countries:

The Netherlands. Although the Netherlands, which this year joins the U.S. in recognizing 200 years of beneficial trade between the two countries, is under recessionary attack, its economy is relatively good compared with its neighbors'.

But then the Netherlands appears to have a working formula in place. "Our inflation rate is relatively low—a little over 7 percent," says Albert Knoester, deputy director at the Ministry of Economic Affairs, "and we are expecting this year a large surplus in our balance of payments, about 4 percent of national income."

In addition, his country has become self-sufficient in energy because of its natural gas, has wage controls firmly in place and has succeeded in lowering its "wage cost per unit product 20 percent below its main competitors," Knoester says.

Its next objective: Decrease the budget deficit from the present 8 percent to 6.5 percent of gross national product this year and 4 percent ultimately. Says Knoester, "We believe private investment is crowded out of the market by large deficits, and above all, we want to stimulate investments."

Holland's inflation, expected to drop to 7 percent this year, is not worrisome; its unemployment, at 12 percent, is. And Ruding, like many European economists and leaders, fears a large out-ofwork force as a threat to political stability.

Belgium. By early light, Brussels' shopkeepers industriously lower their awnings and set out merchandise, looking forward to the thousands of browsers and buyers who fill the streets every day. It is rare, indeed, to find a vacant store. "The Belgians," quips a European diplomat, "eat and drink everything they make."

But now their economy has indiges-

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PHOTO: PETER MARLOW---EYE

tion. Workers have been accustomed to high wage settlements, the aged and infirm and unemployed have enjoyed generous social aid, the students have drawn comfortable educational benefits. As a result, "the Belgian economy today is not very bright," says economist Geerts of the Credit Bank of Belgium. "We have high unemployment, a huge deficit and a weak currency." And it has been only within the past year that Belgium's centerright government has pared the menu and pushed the populace away from the ta-

At the same time the government is frowning at U.S. interest rates. It is wrestling with its own high interest rates resulting from a budget deficit that last year soared to 16 percent of GNP. That compares with 2 percent in the U.S.

Worse, Belgium's national debt in 1981 was 66 percent of GNP, twice as high as the U.S. per-

"Recent labor cost reductions and February's devaluation of our currency," says Geerts, "promise to lower our deficit." But no one expects a flashy turnaround. Unemployment, for example, is increasing; it was 12 percent last year and may be 13 percent this year.

Meanwhile, foreigners continue to avoid heavy investments in Belgium.

Britain. The outbreak of the Falkland Islands crisis last month injected a new note of uncertainty into what was already a clouded economic situation.

Economists had agreed that the recession had bottomed out, but they couldn't reach a consensus on whether the economy would turn up or remain in a trough.

Thomas Hintze, vice president of a Charing Cross bank, reported: "The fact that our inflation rate only 18 months ago was nearly 22 percent, and now is down to 12 percent, bodes well for recovery. We may even reach single-digit inflation this year."

But unemployment statistics remained grim with 3 million workers idle and a jobless rate of 10 percent, highest since the Depression of the 1930s.

A continuing increase in imports at a time of static domestic production is a further problem facing the government



Prime Minister Margaret Thatcher of crisis-plaqued Great Britain shares President Reagan's economic philosophy, Both leaders also believe their recessions have bottomed out.

of Prime Minister Margaret Thatcher in its efforts to restore economic health through free enterprise policies that have come under sharp criticism from her political opponents.

The economic and political debate was heavily overshadowed, however, by the Falkland Islands situation. Though Argentina's occupation of the islands galvanized the British people in a manner reminiscent of World War II, it also introduced new economic problems, including fluctuation in the value of the pound.

Public attention shifted from the long economic crisis to the tiny crown colony thousands of miles away in the South Atlantic.

The general view as events unfolded was that a successful resolution of the Falklands clash would strengthen Thatcher's hand in future efforts to deal with economic problems, but a setback for Britain would weaken her position if it did not force her resignation.

France. It is 2 in the morning and Paris' hottest disco pit, the crowded Palace Theatre, is whomping to deafening music and frantic laser beams; down Montmartre's moody little streets, lights still burn in many windows; at the exclusive Tour d'Argent, another bottle of wine is brought to the table, capping an evening at the Salle Pleyel concert hall. The French, unmindful of the clock or any other regimen, from home or abroad, are going their different ways. Their government is no exception.

Countries around them are cutting wages, decreasing social benefits, tightening deficits, taking tucks in their economies, but France is letting out all the seams.

Hourly wage rates are being increased 18 percent; industries are urged to pay for five, not merely four, weeks of vacation; social benefits are being boosted 25 percent to increase consumer spending; and government deficits and the balance of payments. already kiting, are being given more and more string.

It is the French way of fighting the recession.

"Can they bring it off?" asks Chris Petrow, an American who is vice president and director of TRW Europe. "That's the question."

French governments have always had a heavy hand in

running the economy. Even conservative governments have nationalized companies. Yet the speed with which President Mitterrand's Socialists have instituted nationalization policies is rat-

"It's a wait-and-see attitude for most of us," says Jacques de Clor, Parisbased economic consultant. "We expect a 3 percent growth rate this year, and that would be very good. But, we ask, can one have a 3 percent growth rate and still bring down inflation? Inflation was 14 percent last year. If it can be achieved, yes, it would have a good effect on investments."

But France's unemployment is rising (8.3 percent expected this year), its inflation appears stuck at 13 percent, its deficit is headed toward \$8 billion from a surplus last year. If its own and international interest rates do not decline, it may have to devalue the franc to avoid drying up private investment.

The French government has chosen to head out in still another new direction-research and development. Says Petrow: "France is making a major drive to become one of the leaders in high technology during this decade. It has created a high-powered Ministry of Research, increasing its R&D budget this year alone by 30 percent. That should create some interesting investment opportunities for everyone."

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TRUCKS ARE WHAT WE'RE ALL ABOUT.

# Finding a Manager Who Fits In By Carole and Bryant Cushing

UT HIS CREDENTIALS were right, and his references were impeccable! How could we have gone so wrong? That lament is heard every day in American business-from the boardrooms of prestigious, billion-dollar corporations to the back rooms of the newest fledglings on Technology Row.

Learn to read yourself-

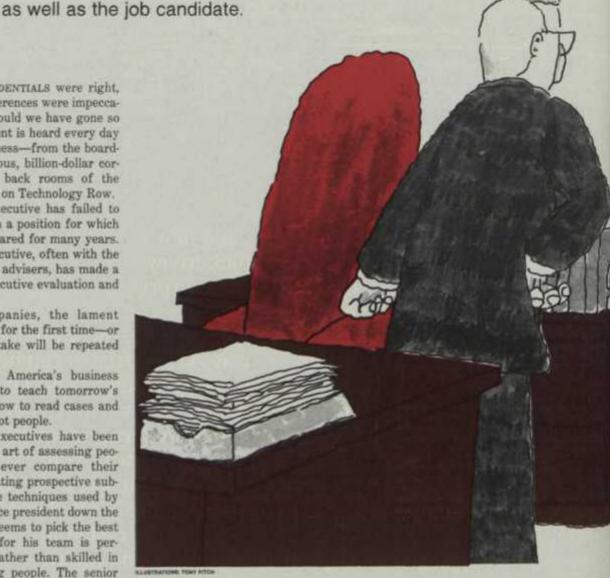
Still another executive has failed to make the grade in a position for which he may have prepared for many years. Another chief executive, often with the help of his closest advisers, has made a costly error in executive evaluation and placement.

In many companies, the lament hasn't been heard for the first time-or the last. The mistake will be repeated again and again.

And why not? America's business schools continue to teach tomorrow's decision makers how to read cases and balance sheets-not people.

Few top-level executives have been trained in the fine art of assessing people. Fewer still ever compare their methods of evaluating prospective subordinates with the techniques used by their peers. The vice president down the hall who always seems to pick the best of the brightest for his team is perceived as lucky rather than skilled in the art of reading people. The senior manager who makes one mistake after another in selecting new associates routinely complains that "they just don't make 'em like they used to.'

CAROLE AND BRYANT CUSHING are principals of Cushing & Cushing, a firm based in New York and Santa Monica, Calif., that specializes in assessing and guiding the growth of management



Yet the fault, as Shakespeare would be quick to remind us, is not in our stars, but in ourselves. It is possible to select the subordinates right for us and right for the job. To achieve that goal, three ingredients are required:

- · A searching, honest appraisal of your personality, working style, preferences, idiosyncrasies and taboos.
- · A realistic description of your company's managerial environment.

· An interview that tells you more about each candidate than he knows about himself.

THE SELF-APPRAISAL should not require more than a few hours of reflective, analytical thought. Many executives who have made such a selfinventory have later commented: "I thought I knew myself pretty well Now I realize I should have recognized

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some of these things about myself years ago."

Try these questions on yourself:

Are you a project or process-oriented person? People who are more at home with projects prefer work that has a clear beginning, middle and end. When they are done with one project, they go immediately to another. The process-oriented manager likes longterm efforts with no beginning, middle or end. He likes working for the long pull. There are many successful executives in both categories. But your preference for one or the other will strongly influence your relationships with subordinates.

What does it take to make you angry or frustrated? List the triggers that fire those emotions within you: sloppy work by subordinates, incomplete staff work, procrastination, people who lie, etc. Don't stint on this list.

What do you do with your anger or frustration? Are you a confronter or do you count to 10 and hold it all in? If you communicate your feelings, how do you do it?

How do you prefer to send and receive information? Though many executives are equally skillful in written and verbal communication, almost evervone inclines to one or the other. People who send information in one form prefer to receive it in the same way. The executive who likes to talk things out face-to-face usually gives long reports short shrift. The reader makes analyses and decisions based on what he sees on paper, not on what he hears in a spoken presentation. Mismatches of superiors and subordinates in this one crucial area account for a significant number of selection failures.

What is your need for frequency of contact with subordinates? There are close-in superiors and remote ones—and many gradations in between. Some managers supervise very closely on certain matters while giving little direction on others. Examine this dimension of your style carefully because opposites do not work well together here.

Your answers to those questions will provide an easy jumping-off point for an examination of the managerial climate of your company—especially if you are the kind of executive who sets the firm's organizational tone. This second vital ingredient in your homework is often best accomplished with the aid of your management associates. Some basic questions to put to yourselves:

How political is the environment of the organization? Every company has internal tensions. Every organization is political in some ways and to some extent. There are managers and professionals who thrive in firms that are characterized by a certain amount of jockeying for position and active competition for attention from the chief executive officer and the board of directors. Others believe the person who turns in one outstanding performance after another should not have to blow his own horn or join the latest cabal.

Is yours a management in which a nonpolitical executive can survive? The litmus paper test: How much of executives' time and energy is devoted to internal maneuvering versus the effort expended in contending with the real world—the one from which all revenues are ultimately derived?

Is the company made up of yellers and screamers, or is its ethic one of restraint? In a surprising number of companies a decision isn't final or official until there has been a great deal of emotional bombast. In other firms the unspoken rule is that civility must be maintained and emotions carefully masked. Certain individuals take to highly emotional companies as ducks to water; their lookalikes wouldn't last a week in a high-decibel environment.

Is professionalism a way of life in your company or is it given lip service? Many CEO's will say, "I want a real pro brought in to fill that job," but they seem unable or unwilling to create a managerial environment in which professionalism will prosper. Unless top management infuses the organization with high standards and strong discipline in matters of quality, behavior and attitude, assembling and keeping that team of "first-class professionals" will be just a dream.

The Third essential ingredient is an interview designed to tell you what you need to know. Résumés are, at best, limited-purpose documents. Their sole job is to help you decide whether you want to meet the candidate. You should know the contents of the résumé before the candidate appears for an interview. But ask the candidate to tell you the story of his career—in his own time and his own words. As the candidate talks about his career and his interests, listen hard for clues to these issues:

Self-knowledge. How well does this candidate know himself in the role of superior and in the role of subordinate?



Has he taken the measure of his limitations as well as his strengths? The person who doesn't know and respect his own limitations can be a time bomb waiting to go off in business organizations.

Consider the exceptionally talented head of finance in an industrial supply company we know. He wanted desperately to wear the mantle of a general manager. When his CEO gave him full responsibility for a successful small division in the small parts field, he quickly decided the bigger dollars lay in the heavy equipment field. His attempt to change the division's product line overnight cost the firm 10 times his annual salary in three months' time. It also cost him his job.

Self-worth. Does the candidate think of himself as a valuable person, or does he believe, deep down, that he's not as good as other people? Or is he someone who greatly overvalues himself and his ability to contribute? Are you willing to accept the possible implications of any misperception in your organization?

Walter M., who inherited a thriving family dry-goods business and the conviction that he wasn't worth much, now has a business that isn't worth much, either. His lack of self-esteem is reflected in the business associates he chooses, who similarly place little value on themselves or their work.

Ability to listen. Some people are so preoccupied with dominating a conversation or filling the empty spaces with their words that they are incapable of hearing what anyone may say. In the interview this person is the one who is rehearsing his next statement while you're in midsentence. If the candidate doesn't listen to you in the interview, if he leaps to assume what you are about to say before the words are half-formed on your lips, is he any more likely to hear you once he has come to work with you?

Attitudes toward authority. The candidate who has had difficulty with authority in other contexts will be in trouble with a superior in your company, too. Jack R., head of a rapidly growing energy company, was delighted to recruit Larry Z., an experienced, smart manager who was well-known in the oil patch. But Jack soon learned that Larry had a habit of taking no to mean yes and then did things his way—not as they had formally agreed. The problem is that Larry delights in childlike jousting with authority. His behavior says, "I dare you to call me on it."

Thinking range. Short-term thinking is often defined as today, this week and up to three months. Intermediate range in some American business quarters spans three months to a year, and long-range thinking moves out beyond one year. There is a remarkably high proportion of short-term thinkers in business. Many managers are selecting data-processing equipment for 10 years ahead or making key marketing, manufacturing and finance decisions that reach out toward the 1990s, but their true focus remains tightly on today—and next month.

The Candidate who passes with flying colors on each score must still be examined according to the criteria you applied to yourself. Is he a process- or project-oriented person? Will he hand you complete or incomplete work? Is he a reader and a memo writer, or does he send and receive best through the spoken word? Let him tell you what it takes to make him angry—and what he does with his anger. If you're a strong confronter and he isn't, consider the likely consequences.

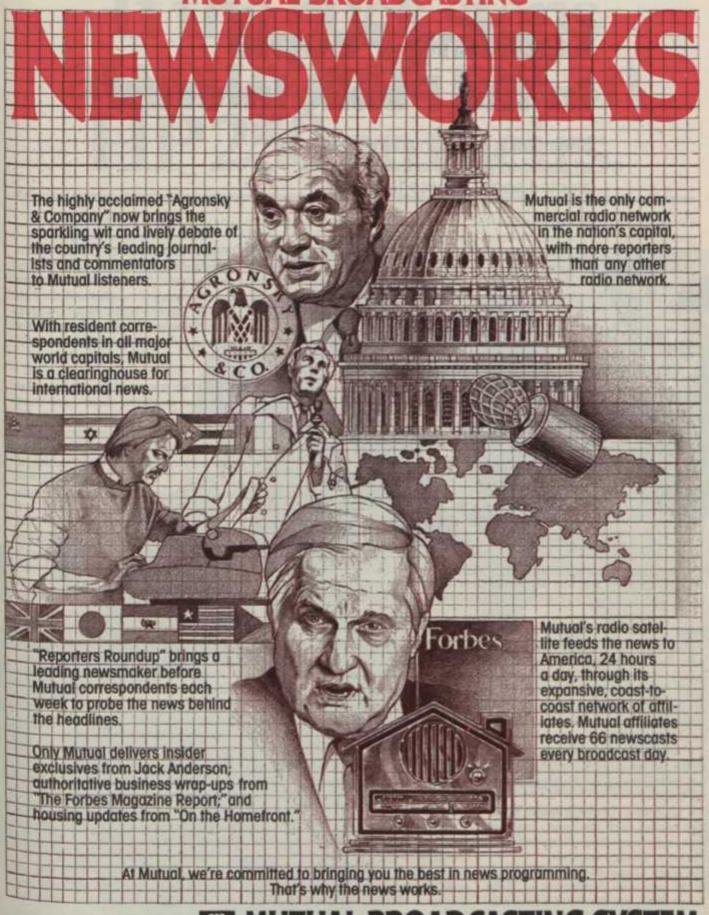
Certain danger signals can be ignored only at your peril. The candidate who says he never gets angry has deceived himself and is now trying to deceive you. The man who discovered that each company he joined turned out to be very different from what he had expected probably can't make good assessments of situations and doesn't learn from his mistakes. The candidate who never really answers your questions but envelops you in a cocoon of words is saying. "I won't tell you what I really believe—and I suppose I never will."

Those signals are not always clearly hoisted. Your sixth sense will have to tell you whether something just doesn't fit properly. Respect your instincts. For one fact remains clear: The majority of failures in executive placement are caused by incompatability, not incompetence.



To order reprints of this article, see page 56.

### **MUTUAL BROADCASTING**



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# Lending People In the Public Interest

Community, company, employe all stand to gain when workers are granted social service leaves.

By Mary Tuthill



Ronald Simmons of IBM, who teaches electrical mechanics at the Maryland School for the Deaf, developed a practical, vocational training approach to the subject.

HE VOLUNTARISM that President Reagan has been preaching has long been practiced by many American companies. There is no more dramatic example than the ambitious programs that permit employes to take paid leaves of absence to work in social service jobs. A sample:

 Ronald Simmons, an instructor for IBM's field engineering education center, is teaching at the Maryland School for the Deaf.

Maurine K. Conine, a branch inventory control clerk for Xerox, has been spending six months working with rape victims in Chicago hospitals.

 Mary Louise Buckley, an employe in the personnel department at Wells Fargo Bank, has developed a fund-raising plan for a center for developmentally delayed preschoolers in Concord, Calif.

· Sharon G. Limpert, an administra-

tive assistant at Control Data Corporation, coordinated sports programs for disabled people and events related to the International Year of the Disabled.

"The Xerox leave program was started as an employe and community benefit," says Robert M. Schneider, vice president for public affairs, who helped set up the program 11 years ago. "But I think the benefit has been shared equally by Xerox. There is no better employe development program than social service leave."

Over the years, Schneider has watched the program grow and change. "At first the leaves were for a year, regardless of the social work, and our employes simply went to work in whatever area of social service they liked. Some didn't come back." Now, he explains, the service must be more carefully defined—perhaps setting up a particular program or heading a certain

project—and leaves are granted for the estimated time it will take to do the job, up to a year. The company maintains close contact with employes while they are on leave. "Times have changed, too," Schneider says, alluding to the current job market. "Now most come back."

o BE ELIGIBLE for such leave, Xerox employes must have been with the company three years. Applications and proposed projects are submitted to a committee, whose five members constitute a cross section of employes. It weeds out applicants who seem to be looking for extended vacations.

The committee would like to see more applicants. Of almost 35,000 eligible employes, only 70 submitted proposals in 1981. From that number, 15 were chosen. Like other companies with leave programs, Xerox has a flexible cap on the number of leaves granted, keyed to how many people can be spared and how much money is available.

Because the amount spent on leavetakers' salaries and benefits is considered corporate philanthropy, it is eligible for a tax break.

On their return, Xerox employes get back their old jobs or are given comparable positions. But 30-year-old Maurine Conine, like many others, hopes her work as a counselor will help her move up when she returns, even though personal growth was not her reason for seeking leave.

"I wanted to give something to the community," she says. "This was an opportunity to reach out and help people who needed information and emotional support." In her work for Rape Victim Advocates she has that chance. Volunteers work in shifts and cover seven Chicago hospitals round-the-

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clock, providing a counselor within 15 minutes of being called.

Though such a job might seem a sudden and dramatic change from her job at Xerox, Conine, like most leave-takers, was already involved part-time before she applied for leave.

Control Data's program has 12 employes currently on leave. There have been 44 since it began in 1977. As in other social service programs, the number has been about equally divided between men and women.

Sharon Limpert, on leave from the company to work with the disabled, is herself a paraplegic. After an automobile accident in 1970, while she was a Control Data employe, Limpert became involved in wheelchair sports. In 1980 she won the Boston marathon for wheelchair participants. She finds her work at Vinland National Center, a health and sports center for the disabled near Minneapolis, challenging

and satisfying. "I can see that the work I'm doing here is helping a lot of people," she says, "I'll be bringing something back from this experience that will be valuable in whatever job I'll have at Control Data when I return."

In its 11 years IBM's social service leave program has sent hundreds of people off with full pay to work for such organizations as the Urban League, Junior Achievement and United Way, IBM also has a faculty loan program that has lent more than 300 employes to schools, colleges and universities with high enrollments of blacks, Hispanics, Appalachians, American Indians or handicapped students. These employes-turned-teachers hope to improve the education the schools offer.

Among the employes on loan is Ronald Simmons, who will spend about a year setting up an electronics program at the Maryland School for the Deaf.

"I'm going to change the curriculum from a textbook course to a course that will meet the needs of industry and enable students to leave school with a marketable skill," he says. In devising the program, Simmons talked with many executives to determine their needs. "I got very enthusiastic responses," he says, "because for businesses to do the training is very expensive. Some have volunteered material for the school, and others will send personnel to meet with students."

In applying for his leave, Simmons "felt fitted for this job because of its similarity to my work at IBM." He is also fluent in sign language.

TYPICAL LEAVE-TAKER, Simmons wants to help people with a problem that is close to him. "When I was transferred from New York to the Washington area, we moved in two doors from a deaf family with a daughter the same age as our girl," he says. His children quickly learned sign language; then his wife and finally Simmons himself learned signing. A year ago he helped start a church for the deaf in the community. Simmons says he will continue to be involved with such volunteer programs

> "and I should be able to bring back to IBM some good ideas from the academic world."

> > In the meantime, his supervisors at IBM keep him upto-date on what is going on in the company. This,

says the company's William E. Whalley, helps absent employes adjust to returning to their jobs.

Nevertheless, the experience most leave-takers bring back to their job often contributes to the difficulty of re-entry.

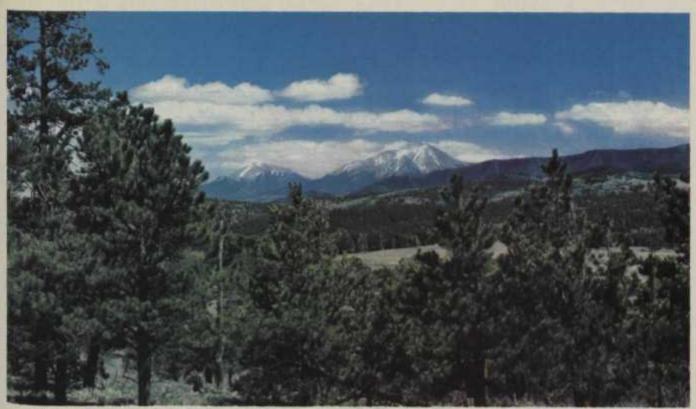
says Carol Zimmerman, an employe at Xerox who helps publicize the leave program both inside the company and outside. "A major problem is that co-workers are expecting the same person who left." she explains, "but the leave seems to change people."

Kim Kellogg, a public relations officer for Wells

Fargo Bank, which started a leave pro-



Sharon Limpert of Control Data organized a wheelchair sports program while working as a volunteer at the Vinland National Center near Minneapolis.



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gram in 1976, agrees: "Someone who feels tremendous personal satisfaction in a social service project has trouble returning to being one of many in a large company."

Mary Louise Buckley, on leave from Wells Fargo to raise funds for the We Care Day Treatment Center in Concord, Calif., expects to have some adjustment problems. This is her first experience with volunteer work.

"I never had time to volunteer before," she says. "It is much more rewarding than I'd expected. It's also very challenging." As she thinks about

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completing her leave, the 27-year-old Buckley says, "I won't be able to cut the ties when my six months is over. I will continue to do some volunteer work for the center."

Because of readjustment problems, most companies with programs have now started counseling not only the leave-takers but also those who work closely with them.

ROM TIME TO TIME companies with social service leave programs are consulted by firms that are considering such programs.

"Many spend more on their philanthropic programs than we do," says Zimmerman, who estimates that the program at Xerox costs about \$550,000 a year. "But the anticipated problems keep them from starting leave programs."

Levi Strauss & Company, after studying the Wells Fargo and Xerox approaches, decided not to start a program. Company spokesman Tom E. Harris explains, "The major problem for us would be how to keep a job open for someone like a plant manager." Instead, the company will continue to sponsor community involvement teams, offering matching-fund incentives from the corporate foundation for special projects.

"It takes a very strong sense of social commitment for a corporation to go so far as to set up a social service leave program," says Ken Allen, executive vice president of Volunteer: The National Center for Citizen Involvement, a nonprofit group that promotes voluntarism. "It also takes strong involvement on the part of an employe to leave a career for several months."

Allen does not expect the number of such programs to increase noticeably, but he adds, "There are many other less formal volunteer programs that are expanding."

for example, employes at some companies may take released time—time off with pay—for volunteer community service activities. They provide emergency services, offer telephone reassurance for the elderly, serve on the boards of directors of volunteer agencies or take part in tutoring programs.

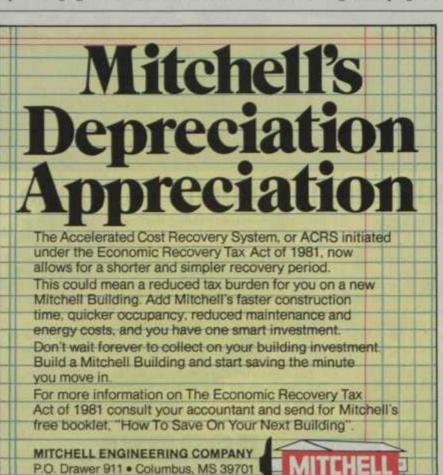
Other companies have time-matching arrangements: The firm gives an employe an hour of paid time to do volunteer work for each hour he performs in his free time.

And some companies lend executives for volunteer administrative work in United Way and other community programs.

Although a few of those projects exceed the duration of formal social service leaves, most involve days or hours.

Allen says a survey done three years ago by his organization showed that more than 350 corporations had some sort of volunteer program. "I think there are twice as many now, and I expect the number to continue growing rapidly."

The main reason for such growth? Consider the most frequent sentiment expressed by volunteers: "It was a rewarding experience."



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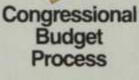
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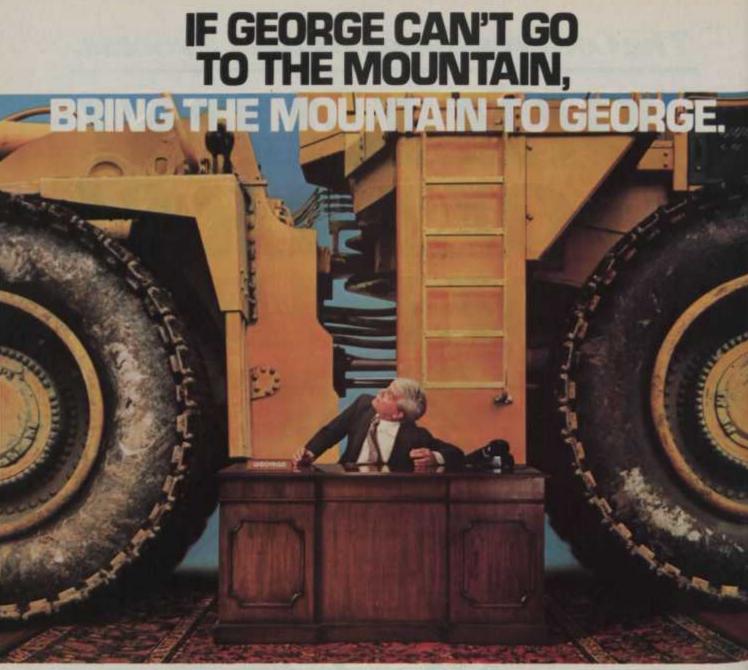
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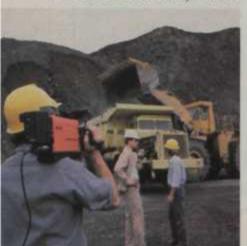
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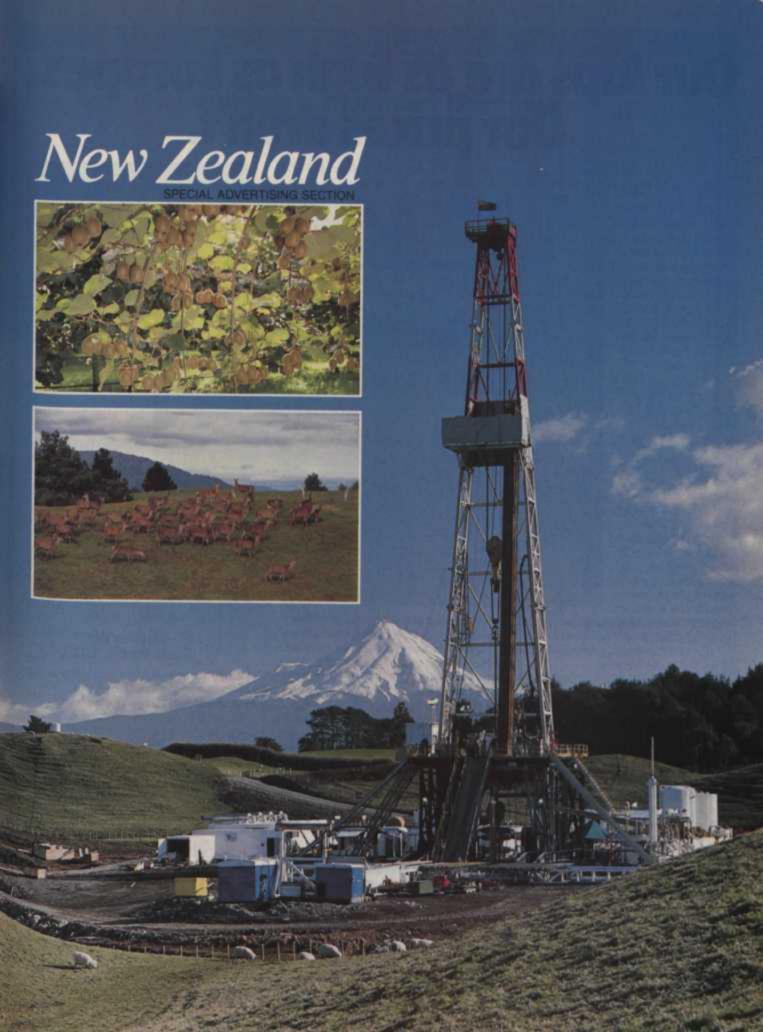
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strewn with wildflowers and warmed by a friendly sun.

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But you'll do it at a price that's as

beautiful as the scenery.

For example, a view like this one from the Hermitage Hotel is only \$51 per night. And the price of a hearty meal in New Zealand would barely buy an after dinner drink in Europe.

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Driving south across the rolling Canterbury Plain, you'll reach Dunedin, a bit of Scotland. When you work up a thirst touring the Octagon, the old city's center, quench it with a wee drop at our country's only whiskey distillery. Scotch, naturally.

In your wanderings you may want to stop at one of the many fresh produce stands in the Otago farm country. If you don't see a proprietor, it's because there isn't one. Simply leave your payment in the open cigar box (called, appropriately enough, an "honesty box") which serves as the cash register.

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The Pacific's Number One

### **Building a Balanced Economy**

By Gordon McLauchlan



ew Zealand will undoubtedly enter the 21st century still knee-deep in the grass that historically has sustained its agrarian economy. But in the 1980s manufacturing and tourism will grow more important in the nation's bid to regain its status among the most prosperous countries in the world—a status won in the 1950s and '60s and lost in the '70s.

An agreement early this year between the New Zealand government and the Mobil Corporation for construction of a gas-to-gasoline plant seems to have stilled 3 million New Zealanders' concern over their country's economic future.

As the 1960s closed, New Zealand paid its way with the produce of sheep and cattle (representing more than 90 percent of export earnings), marketed mostly in the United Kingdom (40 percent), the United States (close to 20 percent) and nearby Australia (around 10 percent). Only 6 percent of its income came from manufactured exports.

Now, quite suddenly, 60 percent of exports go to markets outside the United Kingdom, the U.S. and Australia; nearly 20 percent are manufactured goods; and—in the aftermath of OPEC oil politics—this small country is not only energy-rich, but it is also pushing out to the frontiers of energy technology.

Photos on page 75: New Zealand National Publicity Studios. Insets are skwitcuit and deer farming. Drilling rig is in the McKee field.

"The big projects are proving a trigger for renewed confidence," says Grant Adams, managing director of Marac Holdings Ltd., an Auckland-based investment house and merchant bank. "The most encouraging signs at the moment come from exports on a very wide base through the manufacturing sector, and from engineers, architects and other professional people selling their expertise overseas."

The Mobil plant will process natural gas from the large Maui offshore field into methanol and then into gasoline, using a process pioneered but as yet untried on a large scale. The plant will command massive capital resources on New Zealand terms—about \$1.35 billion. It is designed to produce 14,000 barrels of synthetic gasoline a day by the time it comes on stream in 1987. This will help fulfill plans for the country to be 50 percent self-sufficient in liquid fuels by then. The ultimate goal is for self-sufficiency in liquid fuels by 2000.

During last year's election the reigning National Party campaigned on a growth strategy designed to pull New Zealand out of the doldrums it had floundered in during most of the 1970s. This strategy was built around the Mobil plant, other petrochemical developments in Taranaki, close to the Maui field; expansion of the national oil refinery at Marsden Point on the North Island; increased capacity for New Zealand Steel; and the con-

struction of a second aluminum smelter on the shores of Otago Harbour on the South Island.

he Synthetic Fuels Corporation has already announced the biggest single-project loan deal in the nation's history-\$1.2 billion arranged through the Citibank International Group, the merchant banking arm of New York's Citibank. The money will build the Mobil plant. The other components of the petrochemical industry already under construction are a methanol plant, a \$130 million joint venture between Alberta Gas of Canada and the governmentowned Petroleum Corporation of New Zealand (Petrocorp), and a \$70 million ammonia-urea plant being built by Petrocorp

Although New Zealand has considerable hydroelectric power, abundant natural gas reserves and promising prospects for oil, the real energy wealth of the future may well be coal, which had a higher production value in New Zealand than any other mineral between World Wars I and II. Its use slumped during the 1960s, but surveys during the 1970s revealed reserves of high-quality coal much larger than had been suspected. New Zealand's recoverable reserves of coal are put at 3.5 billion tons, including 150 million tons of bituminous deposits, 613 million tons of subbituminous and 2.67 billion tons of lignites.

### **New Investment Welcomed**

The interest being manifested by the United States business people in New Zealand at the present time is most welcome. The trading links between our two countries are already well established and it is only right to look to a deepening partnership as New Zealand now sets out

on an unprecedented program for development of its resources.

I recognize the valuable contribution which American business corporations have made in the past in the development of a number of sectors of our economy. Knowing full well



that we have to look overseas for much of the capital and technology we need to meet our objectives, especially in this next decade, I am glad to take this opportunity to stress the importance we are attaching to new investment.

I hope to see in the years ahead the involve-

ment of American venture capital and entrepreneurial skills at least matching the rate of growth of the New Zealand economy.

> Hon. Hugh Templeton Minister of Trade And Industry

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### New Zealand

Japanese, South Korean and Singaporean interests are investigating the feasibility of importing coal from the huge bituminous field (estimated at 77 million tons) near Greymouth, on the western coast of the South Island. Each group is looking at a joint venture with New Zealand interests.

Elsewhere in the economy, driving entrepreneurial forces have opened up new possibilities for primary production in three special areas-forestry, horticulture and deer farming.

he Pinus radiata tree, a native of California (where it is now hardly known), has taken well to this country. Forest production is providing about 9 million tons of wood a year at present with prospects of about 12 million tons by 1990. But the real boom will come during the '90s, building up to at least 20 million tons.

"New Zealand has developed processing and seasoning techniques to the point where Pinus radiata can be an extremely durable material," says Douglas Walker of New Zealand Forest Products Ltd. The company is the most experienced and diversified in the forestry field. Its export sales last year amounted to \$123 million and went to more than 30 countries.

The firm, incorporated in 1935, is the result of an amalgamation of many owners of about 80,000 hectares of trees in the central North Island.

"There is an act of faith in planting trees," says Walker, the firm's chief excutive officer, "but at that point you don't know what you are going to do with those trees in 28 to 30 years when they're ready for harvesting.

"Pulp, paper and building materials, such as partical boards, are examples of the products already being produced by our company for domestic use and ex-

"The markets we are interested in for exporting to now and in the future are those closest to us-Australia, Southeast Asia and the Asian mainland, but also East Africa and the Middle East, up into Pakistan and even parts of South and Central America."

Horticulture is now competing furiously with dairying for some of the most productive farmland. The growth of horticulture has been furthered by the huge success of kiwifruit in the past decade.

In the late 1960s, only a few dairy farmers in the Bay of Plenty, in the northeast corner of the central North Island, were producing the fruit. Export earnings in 1978 were \$10.7 million. Three years later they exceeded \$33 million. The success of the kiwifruit industry has encouraged investment in a wide range of fruits and vegetables.

The same kind of explosive diversification from traditional sheep and cattle farming has come in the pastoral industry with the farming of deer. The first deer were released in New Zealand in 1851 as game animals, and many more were imported over the following 60 years. In the bush, they stripped young trees of their leaves and ate out the undergrowth, thus contributing to backcountry erosion. Because they had no natural predators, they multiplied to the point where the government had to hire professional hunters in the 1960s to reduce the deer population. In 1970 some companies began to think of farming the animals. Now there are more than 50,000 deer on pastoral land behind 6foot fences. Most of the meat is exported to West Germany. The by-products go to the Orient.

ver the past decade exports from manufacturing have increased about 30 percent annually-from a low base-and now represent more than 30 percent of total export income. These exports now exceed 10 percent of output, and a survey by the Manufacturers' Federation predicts this will rise to 16 percent of output by 1983.

When flexible, small-scale manufacturing operations were matched with marketing talent and persistence, New Zealand exports prospered. In 1964, Michael R. Evans, a toolmaker by trade, started Auckland Tool and Gauge Company, a business making dye components and molds, on a lathe at his home.

"About 10 years ago I saw that toolmaking for a small market, such as New

### **Ready To Assist**

"The American Chamber of Commerce in New Zealand, through its affiliation with the U.S. Chamber of Commerce and the worldwide body of AmChams, is well placed to assist in New Zealand's economic growth.

"It would be pleased to assist interested parties seeking further information, and I would commend the investment and joint partnership ventures available for your attention."

P.W. Marriott President American Chamber Of Commerce in New Zealand Wellington, N.Z.

### New Zealand

Zealand, had too many fluctuations," Evans recalls. "So, encouraged by government incentives, we decided to try for exports to level out the demand. I went knocking on doors. I made two or three trips to Los Angeles before the first breakthrough came with the Hughes Aircraft Company. We did a lot of development work on electron dynamics equipment, and this forced us into an area of technology we had not entered before. But once we had broken into the American market, it tended to snowball."

New Zealand's tourism industry traditionally has focused on the Australian market, but the tendency now is to move out and attract other visitors. The industry is showing little growth mainly because of the U.S. recession and fewer Australian visitors. The total number of overseas visitors was 478,037 last year, an increase of 2.7 percent. There was some growth in both the United Kingdom and Western European markets, but the major gain came from the striking increase of Japanese visitors, up 34 percent to 25,736, and from other Asian countries, up 14.2 percent to 17,788.

Bob Owens, head of Air New Zealand, the national carrier, believes resort development is an urgent need. "We have a great potential for a balanced tourist industry," he says. "We need investment from overseas, but even more than that we need entrepreheurial skill. Building the industry requires pulling together a number of interests, and this is not happening in



New Zealand plans new facilities to market vast coal deposits to Asian customers.



in time, New Zealand plans to be less dependent on exports of sheep products.

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### New Zealand

New Zealand yet. There is a shortage of capital. Some projects are suffering from severe undercapitalization. We have to get the risk-taker who has plenty of cash and the know-how to make it all work."

Owens, a self-made millionaire who was called in to take over the chairman-ship of Air New Zealand only a few months ago, believes the political climate is ripe for granting the first casino licenses in New Zealand. He says the rapid growth—from a low base—of the Japanese market augurs well for future investment. "It's likely the Japanese will want to bring capital in here as they have in other countries attractive to Japanese tourists," he says.

Overseas capital and expertise have already trickled in to support the accommodation industry. The 422-room Sheraton Auckland will open next year.

But regardless which project is developed, the paramount problem is capital. The government has tried to create an attractive environment for foreign investors by not restricting the repatriation of profits and dividends. More than 95 percent of all foreign investment proposals have been approved by the Overseas Investment Commission during the past

five years. A project is judged by these criteria:

- Introduction of new technology or management or technical skills.
- Development of new export markets or greater access to existing markets.
- Positive net contribution to the balance of payments.
  - · Creation of new job opportunities.
- Competition to the local economy with a likely lowering of domestic prices.

An investment unit has been set up within the Department of Trade and Industry to shop around for capital and to put those in need of capital in touch with prospective foreign investors. The screening of equity investment starts at 25 percent, but this is only a trigger point. The government has said that the level of equity participation is a relatively minor factor in the assessment of any proposal.

The main thrust of investment so far has come from Britain and the United States and, particularly over the past two

years, from West Germany.

Although New Zealand cannot match the fast turnover of capital available in such financial centers as Singapore or Hong Kong, it is attractive to entrepreneurs looking for a relaxed life-style.

Most of the foreign investments in recent years have been in manufacturing and tourism. While West German investors have shown interest in tourism, most funds for hotel construction are coming from the East—notably Japan, Singapore and Hong Kong.

Now New Zealanders sense that they have energy assets the world may envy and that given the capital for development, they will turn the corner into the next decade among the world's most affluent countries. If the foreign trade missions regularly calling are an indication, other people are sensing it, too.

#### **ACKNOWLEDGEMENTS**

This special section was produced with the cooperation and assistance of the Hon. Hugh Templeton, Minister of Trade and Industry of New Zealand, and Harry Purcell, executive manager of the American Chamber of Commerce in New Zealand.





# Defense Economic Buildup: Question Mark

Some say rearmament will help the economy, others say it will hurt. Unquestionably, though, it will mean more business for many firms.

By Tony Velocci

OR MONTHS Universal Foundry Company, a small, Wisconsinbased firm that makes aluminum and iron castings for industrial use, has been seeking ways to penetrate the lucrative defense market. The sagging economy has undermined much of Universal Foundry's commercial business. idling half its productive capacity.

So when the company recently received a five-year forecast from the Department of Defense detailing DOD's future needs as a result of President Reagan's planned military buildup, Universal was understandably pleased. The forecast includes such things as how many nonferrous castings will be in demand by 1987.

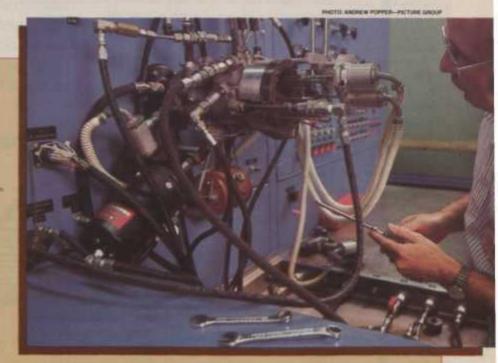
"That kind of insight is something we never had before and should lead us to defense-related business opportunities in the future," says Peggy A. Barbola, a Universal Foundry marketing research analyst. Dozens of other firms that also received the report agree.

With the Pentagon poised to spend \$1.6 trillion between now and 1987 to rearm, things are indeed looking up for many companies, large and small.

The study that Universal Foundry received—the Defense Economic Impact Modeling System-is intended to encourage firms not now doing business with DOD to compete for defense-related business and help companies already supplying products and services to the military to better plan their capital requirements.

Companies can obtain copies of the DEIMS report by writing to Defense Industrial Resources Support Office, 2 Skyline Place, Suite 1406, 5203 Leesburg Pike, Falls Church, Va. 22041.

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### **Rising Demand for Skilled Labor**

(In thousands of employes)

	1981		1987	
	U.S. Total	Defense Share	U.S. Total	Defense Share
Aero-astronautical engineers	65	24	87	41
Aircraft mechanics	129	44	160	61
Mechanical engineering technicians	17	4	22	5
Tool and die makers and apprentices	181	17	223	28
Machinists and apprentices	489	50	573	75
Computer specialists	457	57	547	71
Chemical engineers	52	3	56	4
Machinery and equipment mechanics	977	60	1,152	78

Source: Department of Defense



### The Defense Share of Output by Industry

Industry	1981	1987	Average Annual Growth 1981 to 1987
Shipbuilding and ship repairing	54.2%	59.4%	1,6%
Radio and TV communication equipment	50.6	62.6	3.6
Aircraft engines and engine parts	48.0	59.7	3.7
Small arms ammunition	40.4	59.1	6.5
Aircraft	32.3	42.9	4.8
Nonferrous forgings	26.7	36.2	5.2
Electronic components	19.5	25.7	4.7
Nonferrous castings	16.0	22.0	5.4
Semiconductors	13.7	18.1	4.8
Primary metal products	11.6	17.4	7.0
Steam engines and turbines	10.4	15.1	6.3
Aluminum castings	9.6	13.7	6.1
Iron and steel forgings	8.0	11.5	6.2
Screw machine products	7.8	11.1	6.1
Metal-cutting machine tools	6.9	9.5	5.7
Primary aluminum	6.8	10.4	7.4
Special dies, tools and accessories	6.6	9.5	6.3
Ball and roller bearings	6.3	9.0	6.2
Telephone and telegraph equipment	5.9	7.3	3.5
Metalworking machinery	5.5	8.7	7.7
Power transmission equipment	5.5	7.6	5.5
Optical instruments and lenses	5.4	7.0	4.5
Steel pipe and tubes	5.4	7.4	5.6
Fabricated textile products	5.1	5.7	1.9
Measuring and control instruments	5.0	6.0	3.2
Electronic computing equipment	4.8	6.0	3.9
Transportation services	4.7	5.9	3.9
Motors and generators	4.6	6.8	7.0
Welding apparatus	4,3	5.2	3.2
Petroleum refining and related products	4.0	5.9	6.6
Primary batteries (dry and wet)	3.0	5.2	9.7
Communications	24	3.1	4.0
Electric utilities	24	3.5	6.9
Tires and inner tubes	2.3	3.6	7.4
Synthetic rubber	2.3	3.6	7.8

Source: Department of Defense

defense mobilization base never had before," says R. Daniel Gladding, vice
president of marketing, technical and
planning at Abex Corporation, a firm
that makes components for the M-1
tank. Adds Steve J. Diedrich, a Republic Steel Corporation market analyst:
"Until DEIMS came along, we were
never able to get a handle on what the
Defense Department's requirements
would be. That made planning almost
impossible."

But will the military buildup be as good for the economy as it will be for some companies? There are some economists who say it will wreak havoc, severely exacerbating inflation and federal deficits while crowding out private investment and causing a massive transfer of economic resources that will leave some sectors of the economy deprived.

Though some budget cuts will probably be made in the President's overall military program, they are unlikely to alter the fact that this multiyear buildup will be the largest peacetime defense drive since World War II. Yet there is ample reason to believe that the program will not be an economic scourge.

Some industry observers say the buildup will benefit the economy. First, some industries, like aerospace, are in the doldrums, and increased defense spending will stimulate sales. Then there are the so-called ripple effects of defense spending.

For example, Milton A. Margolis, DOD's deputy director for program analysis and evaluation, estimates that 28,500 jobs are created for every \$1 billion DOD spends for goods and services, and that an additional 7,000 are created in the private economy's nondefense sectors as a result of spending by workers employed in defense-related businesses.

Military spending also spawns whole new civilian industries. Examples: computers, jet aircraft and space communications. "In each case development began with a perceived military need, and defense research and development money brought them along until civilian markets were created," declares Jacques S. Gansler, a former deputy assistant secretary of Defense.

Factories are now operating at well below their potential. This underused capacity means that the gradual increase in defense spending—about three tenths of 1 percent of the gross national product a year—should be easily digestible, according to many econo-

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mists and securities analysts. "It's not a front-loaded program, so it will probably have only minimal effect on the rest of the economy," says Murray L. Weidenbaum, chairman of the President's Council of Economic Advisers.

As a percentage of GNP, defense outlays are modest compared with past experience. In 1961 and 1962, when the U.S. economy was booming, defense outlays were 9 percent of GNP. They didn't dip below 7.2 percent until 1971, when they fell to 6.5 percent. After 1972 there was a sharp drop. Under administration plans, defense outlays will rise to 6.3 percent of GNP in fiscal 1983 and reach a high of 7.2 percent in 1987. The trend, then, is a gradual return to higher defense spending.

Paul McCracken, a professor at the

University of Michigan graduate school of business and chairman of the Council of Economic Advisers during the Nixon administration, offers this perspective:

"History is clear: Our economic system doesn't need defense spending to generate prosperity. Furthermore, there is no historical evidence to show that the U.S. economy cannot support the kind of defense spending that is planned."

McCracken, who is now top economic adviser at the American Enterprise Institute, adds: "In past years, when the share of output devoted to defense was quite a bit larger than it will be under President Reagan, price levels remained relatively stable and the country did not suffer economically."

The share of national output devoted

to defense is smaller than many people realize, and it will expand only slightly over the next five years under Reagan's buildup. In 1987 military-related work will account for 10 percent or more of the sales of only 36 industries. But the military work of those industries in 1987 will be only a small fraction—2 percent—of total annual sales of American industry, up from 1.3 percent in 1981 and 1.4 percent in 1982.

BIGGEST INCREASES in demand will come in the small arms and small arms ammunition industries. Last year, military purchases accounted for 15.7 percent and 40.4 percent, respectively, of their total sales; those percentages will jump to 24.6 and 59.1 by 1987.

In other key industries the military share of production, current and projected to 1987, looks like this: semiconductors, 13.7 and 18.1 percent; electronic computing equipment, 4.8 and 6 percent; electronic components, 19.5 and 25.7 percent; and primary aluminum, 6.7 and 10.4 percent.

In November, DOD economists analyzed the consequences of the defense buildup using a model, or simulation, of the U.S. economy prepared by Data Resources, Inc., an econometric research and consulting firm.

DRI assumed, among other things, that the nation would recover from the current recession very slowly, inflation would not sink much lower, high interest rates would persist, productivity and economic growth would remain sluggish, fiscal policy would stay about the same for an indefinite period, monetary policy would continue to focus on the growth of the money supply rather than interest rates, and the 1981 Reagan tax package would be in effect.

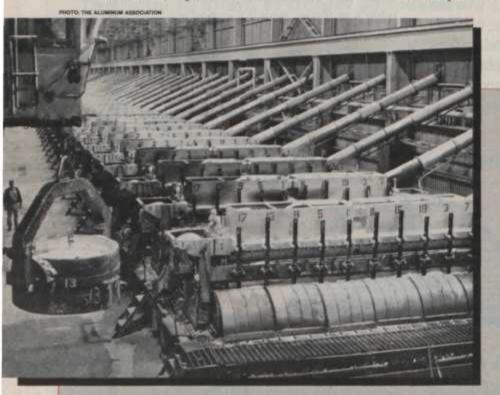
The analysis produced the following profile of what we might expect between fiscal 1981 and fiscal 1987 as a result of the defense buildup:

Inflation. The Reagan plan (8 percent annual real growth) will add only four tenths of 1 percent more to the 7.1 percent average annual inflation rate expected under President Carter's budget (5 percent annual real growth).

Unemployment. The average annual figure will be 7.6 percent—about seven tenths of 1 percent lower than under the Carter military program.

 Interest rates. The average prime rate will run 13.4 percent under the Reagan blueprint—about eight tenths of 1 percent higher than with President Carter's defense budget.

Gross national product. GNP will



### **Rising Demand for Strategic Minerals**

(In short tons)

	1981		1987		
	Total Consumption	Defense Share	Total Consumption	Defense Share	
Quartz	117	23	204	53	
Primary nickel	185,678	23,595	260,844	47,206	
Chromium metal	14,188	1,565	19,975	3,168	
Aluminum	6,365,000	291,000	8,647,000	598,000	
Copper	2,554,700	119,000	3,588,700	238,000	
Manganese metal	28,310	1,600	38,000	3,000	
Titanium sponge	27,700	9,600	42,400	19,200	
Cobalt	9,396	1,891	14,061	3,914	

Source: Department of Defense

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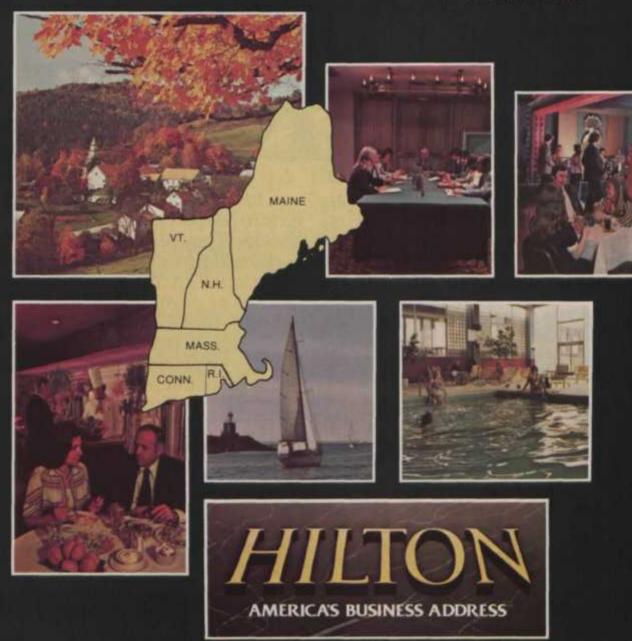
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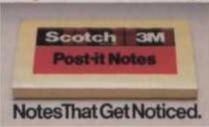


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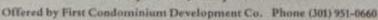
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The Reagan rearmament would actually be a gradual return to historically higher military spending, says Deputy Defense Secretary Frank Carlucci.

experience an average annual real growth of four tenths of 1 percent more during the Reagan administration than under the Carter defense budget. Annual real GNP growth at the peak of the buildup is supposed to reach 4.5 percent.

Private investment. Business investment in plant and equipment is projected to grow an average of 6 percent under Reagan's buildup versus 5.1 percent under Carter's.

viser Weidenbaum concedes that some adverse economic impacts "can be anticipated" from the buildup. A substantial transfer of material and labor resources in the durables sector to defense production could increase relative prices in a portion of the affected industries.

There could be some temporary crowding out of private investment. And increased demand for military hardware could delay the delivery of those goods; this, in turn, could raise the amount of working capital needed by the defense industry. "If this happened, spillover effects into the civilian sectors of the economy would be unavoidable," says Weidenbaum.

However, those who will produce the goods to rearm America see a picture different from that envisioned by people who oppose the build-up on economic grounds. Business and labor leaders generally reject arguments that bottlenecks are inevitable, that private investment in the nondefense sectors will necessarily suffer and

that there will be a shortage of skilled labor.

"We take a jaundiced view of people who say there will be too few machinists to meet defense needs," says a spokesman for the International Association of Machinists and Aerospace Workers. "Normally, our unemployment rate runs slightly lower than the national average; for almost a year it has been averaging about 2 percent higher than usual. We have plenty of members who want to work."

Giddings & Lewis, a machine tool manufacturer, is making doubly sure it doesn't run short of skilled labor. "We have cut our apprentice training program almost in half, so we can train more people faster," says President George J. Becker.

But supporters of the Reagan defense buildup agree with opponents on two points. First, the blueprint is vulnerable to an unexpected resurgence in the economy. "If the economy comes roaring back anytime soon, you'll see a serious conflict between military and nondefense business," predicts Wolfgang H. Demisch, a securities analyst with Morgan Stanley.

The second point of agreement is that the buildup will have one inevitable consequence: The federal deficits will be considerably larger than if defense spending were cut back. Concedes DOD's Margolis, "Even with the additional tax revenues that defense spending will produce, we'll still expand the deficits over the next four years by an average of 43 cents for every \$1 increase in defense spending."

Many who argue for a strong defense are worried by the projected deficits. Says A.C. Viebranz, a senior vice president of GTE Corporation, whose defense-related business contributes less than 4 percent to total revenues: "We're afraid the government will borrow to cover those expanding deficits, and this would rekindle inflation."

RESIDENT REAGAN is pursuing a guns-and-butter policy, much as Lyndon Johnson did, according to Lester Thurow, professor of economics and management at Massachusetts Institute of Technology. "In Reagan's case," he says, "the tax cuts are the butter—an excessive handout that can only be paid for by inflation when you are simultaneously launching a military buildup."

Opponents of the buildup fear that research and development initiatives will be denied to the civilian economy because those resources will be concentrated in the defense industry. Thurow also suspects that the U.S. will lose the technological lead it has over its foreign competitors in some fields.

In times past, defense considerations have taken a backseat to economic pressures, and now there are fears that the pendulum is about to swing too far the other way.

But national polls show most Americans are dissatisfied with the state of U.S. military preparedness. And the Reagan administration insists that the planned buildup, which it says is vital because of an imbalance with the Soviets, can be accomplished without real harm to the economy.

"We are conducting a very expensive, long-delayed program of rearming America, and you can't do it for free," says Defense Secretary Caspar W. Weinberger. To Weinberger, there's no question that "it's worth the expense" because "nothing more or less than the future of this country and the Free World is at stake."



Universal Foundry hopes to crack the defense market with aluminum castings like these. A slack economy has forced the firm to lay off almost half its work force.

# Where America Stands On Tax Increases

Despite a new poll showing overwhelming public opposition to tax hikes, Congress is considering a slew of them.

ANY BUDGET compromise that calls for rolling back individual or business tax relief approved last year would run counter to the wishes of a solid majority of U.S. consumers, a recent survey shows.

It indicates, in fact, that the popularity of the tax-increase proposals is limited largely to the politicians proposing them.

The survey, conducted by the Gallup Organization for the U.S. Chamber of Commerce, also shows solid support—a plurality of 47 percent of the 1,580 persons polled—for reducing the deficit by cutting spending. Only 4 percent favored raising taxes; 20 percent were for doing both; 18 percent wanted neither.

Sixty-two percent opposed any postponement of the personal tax cuts scheduled for this July and for July, 1983. And that figure includes 19 percent who said they would like each cut to be made effective six months early.

Business tax cuts also received strong support. Asked to choose between increasing business taxes to reduce the deficit and keeping the cuts already enacted to stimulate the economy, 56 percent voted to keep the cuts, 29 percent favored business tax hikes, and the remainder had no opinion.

Meanwhile, a series of major tax revision proposals are on the table in Congress, most involving increases of one kind or another. All would affect business to some degree. The three most significant proposals concern the individual rate cuts, "safe harbor" leasing and the corporate minimum tax.

The two 10 percent July reductions in personal tax rates, which follow a 5 percent cut last October, affect not only individuals but also the estimated 13 million small business owners operating as sole proprietorships, Subchapter S corporations and partnerships. The cuts are often described as "massive," but others have pointed out that they barely offset increases resulting from bracket creep and legislated Social Security tax escalation.

Although members of both political parties in Congress have suggested deferring or repealing the 1983 installment, President Reagan has never wavered in his insistence on the entire 25 percent reduction.

Observers doubt that Congress could impose a tax increase over a presidential veto—especially in an election year. Further, a group of Senate conservatives have pledged to defend the scheduled cuts with a filibuster, if necessary.

Safe harbor leasing is in bigger trouble on Capitol Hill than any other business tax reform in the Economic Recovery Tax Act of 1981. Some 20 bills have been introduced to repeal it.

Leasing has been called a windfall for rich, big corporations and a subsidy for sick ones. It was put in the act to spread the benefits of the Accelerated Cost Recovery System—keystone of the act's business tax reforms.

Under leasing, firms may sell tax credits they are unable to use to companies that need them. If Company A needs new equipment but cannot use the depreciation deduction or investment tax credit the purchase would generate, it sells the equipment to Company B, which leases the equipment back to Company A. The more profitable Company B gets the tax benefits and gives Company A an extra cash payment.

Leasing is still supported by the White House and by major business groups. The U.S. Chamber of Commerce has suggested modifying the rules to make the benefits more available to small companies. Subchapter S corporations can't participate now, and closely held corporations are virtually excluded. Others have suggested limiting the extent to which profitable companies may use leasing. Administration spokesmen indicate a willingness to make some changes.

BUSINESS and the Reagan administration part company over administration plans to "plug unwarranted tax loopholes" and strengthen the minimum corporate tax. Business representatives complain that administration proposals would cost corporations \$9 billion in fiscal 1983 and \$16 billion in fiscal 1984—more than two thirds of the relief granted them under the 1981 tax reform law.

The biggest headache from the corporate point of view is probably the stiffer minimum tax. The administration estimates 90,000 firms would have to pay the new minimum, compared with 5,500 subject to the current add-on minimum.

To calculate the new minimum, a firm would add to its taxable income the value of potential deductions from an expanded list of 14 tax preference items (such as mining exploration and development costs in excess of 10-year amortization). From this total, a \$50,000 exemption would be deducted. The remainder would be the "minimum tax base," and 15 percent of it would be the minimum tax. The corporation would pay either its regular tax or the minimum, whichever was larger.

The table on the next page lists 12 important tax proposals now before Congress. Most call for tax increases.

### **Major Tax Proposals**

Proposal Or Bill	Congressional Action	Administration Position	Business Reaction
Deferral or repeal of third- year individual rate cut.	Has been proposed by members of both parties to reduce deficit; no committee action yet.	Third-year cut is essential.	Divided; majority supports administration.
Repeal of "safe harbor" leasing to eliminate alleged abuses.	Hearings held in both tax committees; no markup yet.	Leasing is important part of accelerated cost recovery system; some changes may be advisable.	Divided.
Stiffer minimum tax for corporations and individuals.	Hearings held.	Change in corporate minimum tax is necessary to raise revenue and assure that all firms pay some tax.	Opposed as discriminatory tax policy and counter- productive economic policy.
Speedup of corporate tax payments.	Hearings held.	Favors as a revenue-raiser.	Opposed; it would force many firms to overpay to be sure they have complied.
5. Repeal of "completed contract" method of accounting.	Hearings held.	Should be replaced with methods requiring earlier tax payments on long-term contracts.	Defense, aerospace and construction firms oppose repeal on grounds current law allows best matching of income and expenses.
Repeal of business energy tax credits.	Resolutions opposing repeal passed both houses in 1981.	Credits intended to encourage conservation and alternative fuels are no longer needed, given decontrol and high price of oil.	Divided.
7. Restrictions on tax-exempt industrial development bonds.	Rep. Charles B. Rangel's (D-N.Y.) Ways and Means subcommittee approved limitations last year; no further action yet.	Seeks more participation by localities, limits on amount each company can use.	Divided.
Withholding of income tax on dividends and interest.	Similar proposal rejected overwhelmingly in 1980.	Needed to improve income tax compliance.	Opposed; other steps can improve compliance without burdening law-abiding taxpayers.
Increased reporting and penalties to improve tax compliance.	Sen. Charles E. Grassley's (R-lowa) Senate Finance subcommittee held hearings.	Generally supports but favors dividend and interest withholding as well.	Some firms are concerned that corporate officers will be unfairly jeopardized.
10. Protect tax status of independent contractors.	Hearings expected before current moratorium on IRS reclassifications expires June 30.	Proposal expected shortly.	Supports "safe harbor" to protect from reclassification as employes those who have traditionally been treated as independent contractors.
11. Enterprise zones.	Senate Finance sub- committee hearings held.	Proposes creation of 75 zones offering tax and regulatory relief to new and expanding businesses.	Supports concept but with reservations about specific tax proposals.
12. Deterral of LIFO recapture on corporate liquidations.	Passed both houses as part of miscellaneous tax bills; further action in progress.	Opposes revenue loss from deferral.	Supports; LIFO recapture discriminates against small businesses.

### **Deductions for Mother Nature**

By John Hanly Adams

Winter freezes and spring floods can yield a crop of 1982 tax deductions for those who have suffered economic loss. But you must substantiate the damage.

One practical hint: Take photos now of trees and shrubs killed by sudden and extraordinary cold and of property hit by floods—before you replace or repair things. Another: Get an appraiser to estimate the reduction in market value of your property attributable to the damage.

Internal Revenue Service Publications 547 and 584 tell what is deductible and how to back up your claim. IRS often disputes casualty losses, but the U.S. Tax Court often sides with the taxpayer if records are good.

### **Check Savings Bonds**

Someone in your family may have tucked away a few U.S. savings bonds and virtually forgotten them because he chose to let interest accumulate taxfree instead of collecting it each year. Until last year the maturity dates of such Series E bonds were automatically extended.

In 1981, however, the Treasury Department invoked a 40-year limit. Interest will not be paid beyond the final maturity date. And all the accumulated interest—about \$2,250 on a \$750 bond bought in 1942, for example—is subject to income tax when you turn in the bond. The way to defer that tax is to exchange the expiring bonds for HH bonds.

### Loans That Can Backfire

Lending to a family member on special terms can often bring substantial tax benefits for the family unit. But such a loan can backfire in some circumstances. Here's a recent example.

Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases. A father lent his son \$1 million on a 10-year note. His will provided for cancellation of the note at the father's death, which occurred two years later. Enter IRS. It figured the estate tax with these results:

1. Since the loan was not at arm's length and not free from donative intent, the father made a gift of \$730,000 to his son (face amount of the loan minus its true market value of only \$270,000 because of its special terms). And since this gift was made within three years of the father's death, all of it was includable in his estate for tax purposes.

The market value of the note at the father's death was \$305,000, which also was includable in the estate because the note was property in which the father had an interest.

So the \$1 million loan ended up as a \$1,035,000 item (\$730,000 plus \$305,000) in the father's estate.

### IRS 2, Taxpayers 0

In the unceasing struggle between taxpayers and IRS, the tax men recently won two key decisions.

Barter exchanges. Chasing taxpayers who may have failed to report income from barter deals is a favorite IRS activity, and the Sixth U.S. Circuit Court of Appeals has ruled that tax collectors can issue John Doe summonses to force a barter exchange to divulge its membership lists and transaction records. In the case at issue IRS was pursuing records for 1977 and 1978. The court said it need not produce "conclusive evidence of an actual tax violation as a prerequisite to obtaining a John Doe summons."

Audit powers. IRS asked a married couple for personal records to verify some items on their 1977, 1978 and 1979 returns, and an agent told them she was starting an examination of those returns and would disallow all deductions as unsubstantiated. The couple sued for an injunction. The Fifth U.S.

Circuit Court of Appeals ruled against them, saying the law that bars judicial interference with assessment or collection of taxes also applies to IRS actions intended to culminate in tax assessment or collection.

### A Tax-Favored Pool

Your swimming pool may be good for your health and your doctor may have encouraged you to build it. But IRS will usually not allow a tax deduction. Yet in the following case the cost of the pool and its operation will be deductible.

An arthritic taxpayer was told to swim several times a day. His pool is to be indoors, with special stairs and hydrotherapy equipment. Because it will not be suitable for general recreational use, IRS says he can deduct the costs, up to a reasonable amount and to the extent such costs exceed the increase in value of the residence resulting from the addition. That amount, to be determined with IRS approval, and operating and maintenance costs will be deductible as medical expenses.

### Warning on Family Trusts

Many people bit on this tax-saving scheme: Set up a family equity trust, give it your property and the right to your income, including wages or salary, and thus shelter pay, rents and other income from tax.

The scheme was heavily promoted for a while, but IRS challenged it in court and won. Lately, a negligence penalty has been added to charges for past-due tax—intended as a further deterrent.

In a recent case the Tax Court denied the negligence penalty because it found the taxpayers had been misled by their accountant. But the court warned that the penalty would be imposed in future cases. Shortly after that, the court O.K.'d the penalty in another trust case.



# Something To Think About.

Freedom. We expect it in America.

Freedom to choose the way we meet the challenges of life.

Freedom to compete, to risk, to fail, and to succeed.

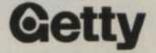
No resource is more precious than freedom.

It enriches our personal lives and the lives of those around us.

Government can assure our personal freedom, but it also can take freedom away.

If we let it.

Something to think about from the people at Getty.



### PEOPLE IN BUSINESS

### Born Salesman Caters to Execs

Richard Thalheimer always planned to be a successful businessman. While studying at Yale, the ambitious young man from Little Rock, Ark., earned money selling paper and other copier supplies to offices. After graduation in 1970 he set out for San Francisco. There he enrolled in the University of California's Hastings Law School and again sold copier supplies to support himself. "I took law to train myself to cope with the problems of building a very large business," he says.

Thalheimer finished law school in 1974, and he practiced general law for a year and a half because, he says, "after going to that much trouble, I thought I should see what it was like. I wanted to know how lawyers worked so I would never be a stranger to that process." During that time he switched from door-to-door sales to his own mail-order business selling supplies for typewrit-

ers and computers.

In 1977 Thalheimer decided to try a new approach. He invested \$200 to place an ad in a runners' magazine offering a hand-held digital stopwatch for \$29.95. He reaped a profit of \$100, so he tried again with another style of watch, spending \$2,000 on advertising. This heimer put out the first 21-item catalog for his company, The Sharper Image, in 1979. He paid careful attention to targeting his customers and buying appropriate malling lists. "Big business makes mistakes all the

"Big business makes mistakes all the time," he says, "but when I put out a catalog or begin an ad campaign, I risk my existence. If I succeed, I'm twice as big. If I fail, I'm out of business."

He adds, "The key to my success has been my ability to anticipate trends, go for broke and get out in time." The trend he has capitalized on has been for executives to buy expensive gadgets—what he calls adult toys. But particular gadgets, whether for jogging, electronics or wearing apparel, might be popular for a year or more or for just one season.

"High interest rates mean execs can't afford new houses or cars, so they console themselves with \$100 toys," says Thalheimer, 34, who enjoys personally testing the items he sells, especially the exercise equipment. Among those ordering from him have been former President Gerald

Ford, Burt Reynolds, Sally Struthers, Britt Ekland, Jacques Cousteau and Muhammad Ali.

Circulation of the

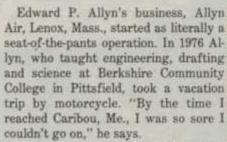
catalog, which lists a combination wristwatch and pulse monitor, an automatic phone dialer, a bulletproof vest, a reproduction of a 15th-century suit of armor and many other items, has increased from 400,000 to 20 million. Thalheimer's sales increased from \$250,000 in 1976 to \$35 million in 1981. His target this year is \$55 million.

What was a one-man operation now has 110 employes. Although Thalheimer still runs some magazine ads, catalog sales now account for more than 80 percent of his business. And the increased number of items offered creates a margin of safety.

"At first," recalls Thalheimer, "it was like having all your eggs in one basket and spending all your time

watching that basket."

### Riding on Air Is the Way To Go



Needed: a seat cushion. Allyn tried all sorts of padding and finally resorted to folding the air mattress he slept on. That did the trick. "The inflation provides a measurable reduction of pressure to one's derriere," he reports. "Other types of cushions just pad the pressure points."

After vacation he thought about producing such a cushion commercially, and in 1978 he started working on plans and talking to companies about manufacturing the item for him. After much searching, he found the right machinery but had to take a course from its manufacturer so he could show workers how to use it. Next Allyn designed a die that would both cut and seal the material for an inflatable seat cushion.

Finding material that would withstand the strain of heavy use wasn't easy, and finding a shop to produce the cushions also took time. "I didn't want to look abroad," says Allyn, "because I wanted to help American workers."

By 1979 Allyn was selling his first output of 2,500 cushions through maga-



Richard Thalheimer diaplays a costly executive toy offered by The Sharper Image.



Edward Allyn's inflatable cushions help cyclists, motorists and a wheelchair user.

zines and personal contacts. "That's when I realized how much I liked being in business and selling," he says. He quit teaching to devote full time to his business.

The cushions sold well, but Allyn revised his design before turning out the second run of 3,000. These, too, sold well, but people kept requesting a similar cushion for bicycles. So Allyn again set to work on a design and last spring started selling a bicycle seat cushion. Sales of the bicycle cushion exceed those of the motorcycle cushion.

The inflatable seats have proved versatile. They fit truck and car seats for added comfort on long trips, and one buyer recently told Allyn that when he used the cushion in his wheelchair, his bedsores went away.

Allyn, 40, still uses the telephone to sell his seat cushions directly to dealers, but about a third of his sales come from mail orders and another third through distributors. Retail price for the motorcycle model is \$30; the bike model sells for \$10.

Spring and summer are the peak sales periods, and Allyn expects to do at least \$100,000 in sales in 1982—up from \$20,000 the first year. His expanding market includes Australia, Canada, England and Bermuda.

"It's a very satisfying business," says Allyn, who employs five part-time people. "Even on days when orders may be low, there are several letters from people telling me how much they like using their seat cushions."

### Fashions on The Clubhouse Turn

For several years before starting her business, Janice Davenport of Louisville, Ky., thought she had a career idea that would be a winner if she could just find a way to enter the race.

She had learned through long association with horse racing—her father, former husband and son were jockeys—that the accessories jockeys wear are not easy to come by. They must be both lightweight and sturdy. "Their mothers, wives or the wives of the trainers often make them," she says. "My idea was that items crocheted of fine yarn would provide comfort without adding weight and would wear better than the usual cloth items."

Davenport, who is in her 40s, says, "I had the idea for years, but I had not found anyone who could crochet well enough to look at an article and design a workable pattern from it." But when she met Wanda Broughton in 1979 at a yard sale, she knew she had found her crochet expert. That year the women pooled their savings of \$400 and, with an assortment of crochet yarn and thread Broughton had on hand, opened their company, The Needlecraft.

The first item they produced was a crocheted stock tie with a Velcro closing in back that makes it adjustable. "This item is so successful," says Davenport, "that a recent order was for 60 stock ties."

Pommel pads, used under the saddle to protect a horse's withers, are a standard crocheted item in their line, which also includes headbands to wear under jockeys' caps, turtleneck dickeys for cold weather, leggings to wear for warmth under riding pants and a nylon helmet cover.

Recently, the women introduced a fully outfitted doll called Jeremy Jockey. The 8½-inch doll, like most of their other items, comes in the colors of famous stables and in custom colors, those a rider chooses for his personal use.

Jeremy, dressed in Kentucky Derby colors, was a popular Christmas item and was for sale for \$10 in Louisville's Churchill Downs for the 1982 Kentucky Derby. Special custom orders can run to \$25 if the silks have a complicated pattern. Other prices range from \$5 for headbands to \$20 for the leggings.

"We're going to add regulation nylon riding pants and mud pants soon," Davenport says. They also plan a coloring book that will trace a thoroughbred's life from birth to the Kentucky Derby winner's circle.

"All our items were made after much trial and error," says Davenport. "The patterns developed by Wanda were constantly adjusted and the items were tested by my son, Mark Sellers."

It was his wearing of the stock ties that prompted the first orders. Most orders still come by word of mouth among jockeys, although Davenport and Broughton now travel to the nation's tracks to promote their products.

The business the two women started now employs seven others, who work in a building behind Davenport's home. "The first year we barely broke even," Davenport recalls, "but sales in 1981 came to approximately \$100,000. It's hard to estimate what will happen this year—a lot of stable owners have put on the brakes because there has been a decrease in prize money and a decrease in attendance at the track."

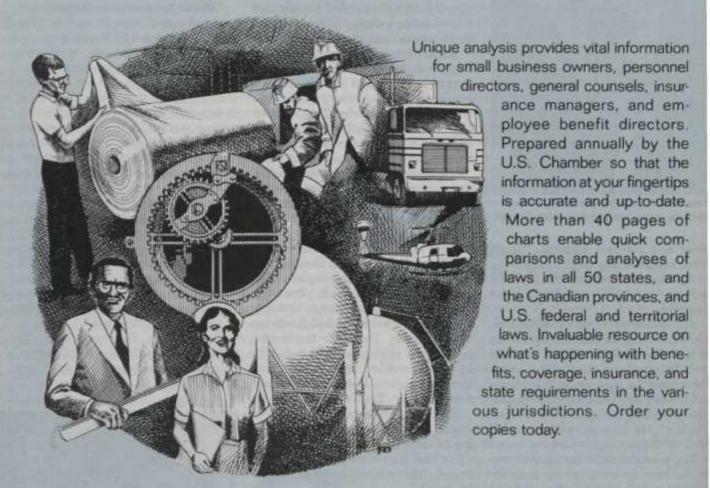
Nevertheless, Davenport says, "in 1982 I'm hoping to have a 100 percent increase in sales because we are filling a need."



Janice Davenport (left) and Wanda Broughton make clothes for jockeys.

INDISPENSABLE READY REFERENCE:

# Analysis of workers' compensation laws



Chamber of Commerce of the United States, PO. Box 114,	Kensington, Maryland 20795
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# Therapeutic Thrills On Wheels

By John Costello

Hell's Angels they're not. One is a Michigan Bell Telephone executive. Another is an engineer with McGraw-Edison Corporation. Then there's the 56year-old grandmother who has ridden around the rim of the U.S.A. from Providence, R.I., and back-via Key West, San Diego, Seattle and Fort Kent, Me. Also the 42-year-old Baltimore businessman who's a top racer in his age category.

They're motorcyclists-or bike riders. They don't



fit the unflattering stereotype many Americans have of motorcycle riders: tattooed, black-leather jacketed, hippie hair tied in a bullfighter's ponytall, VROOM-VROOMING down the highway at breakneck speed.

Most motorcyclists don't, the American Motorcyclist Association says.

Richard Bigelow, 48, for example. "I used to race," says the district manager of public telephones for Michigan Bell. "I was never very good at it, but it was fun. But, about 12 years ago, I gave that up for good. Now I'm strictly an off-the-road trail biker."

80

Motorcycling offers Hazel P. Kolb a way to explore the country and catch up with friends.

This was an instance of youth being served. "My son, Kirk, and I were both in a local race in Elmont, Mich., just north of Rochester, where we live. It was on a closed course on natural terrain, anywhere from a mile to two miles long.

"I had a more powerful bike, an Austrian Penton, while he was riding a Spanish Houdaka. And I had more experience. I had been riding about five years, while this was his first race. And he blew me away!

"He didn't have any fear of how fast he went, I guess, while I didn't want to fall down and break my body. He was on the gas all the time. He finished about second, and I finished about fourth. "So I gave him the Penton. I figured he deserved the better bike."

What age was the son when he made his father eat his dust?

"About 10 years old."

Bigelow went out and bought a trail bike. "That was something I had never done before," he says, "and I really enjoyed it."

The enthusiastic convert soon wore the little Honda out. Now he trail rides on a Yamaha YZ.

"It's a competition bike," he explains, "rather than a trail bike. It's set up for a lot rougher terrain. Trail bikes are

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made to ride on logging roads, fire trails, things like that. You can ride my bike cross-country—or anywhere."

For him, a motorcycle is therapy on wheels.

"It gets me away from the normal workaday Mickey Mouse—if that's the right way to put it," he says with a grin.

Bike riding is a growing hobby.

In 1970, 2.8 million motorcycles were registered in the United States. In 1980, 5.8 million. That total doesn't include many off-the-road bikes. Not all states make you register them.

In 1980, car sales slumped, but bike sales didn't.

Some 1.1 million of them moved off

dealers' floors, the Motorcycle Industry Council estimates. Retail value: about \$2 billion. In addition, MIC says, motorcyclists spent about \$1.1 billion on accessories. More than \$277 million of it went for boots, suits, gloves, helmets and other riding apparel.

Most of the smaller bikes bought here are made in Japan. By engine size, typical prices might be \$1,400 to \$2,100 for a 250-cubic-centimeter bike, \$2,400 to \$3,100 for a 550-cc bike, and \$2,600 to \$3,400 for a 750-cc bike.

Down through the years, there have been about 145 U.S. motorcycle manu-

facturers. Only Harley-Davidson Motor Company, Milwaukee, is left. Many, of course, went belly-up long ago or had only a brief existence, like many early U.S. auto makers.

Harley-Davidson specializes in big, durable bikes. It builds about a dozen models and offers two engines; one is 1,000 cc, the other 1,340 cc. Suggested prices run from \$4,275 to \$8,030.

What's it like to sit on the seat of a racing bike, engine screaming, pulse pounding, waiting for "Go!"?

"Scary," says drag racer Edwin Hedrick, 44.
"It's like standing on the high board, trying to get up courage to dive off." Hedrick is the manager of service of Turbodyne Operation for the Worthington Group, a subsidiary of McGraw-Edison Corporation, Wellsville, N.Y.

After leaving North Carolina State in 1959, he

drag-raced in cars. "But it began to take up too much of my time," he says-

"As a part-time venture, I had a small motorcycle shop, Motosports, Unlimited, in nearby Shinglehouse, Pa-One of my customers challenged me. You know: 'My bike's better than your bike.' So we went to a drag strip.

"I had a pretty fast street bike that I had run hard. But I had never done what you have to do in drag racing—sit still on the starting line, rev up the engine, then let go the clutch, spin the tire and take off.

"I was a little afraid of that."

Several things can happen, most of them bad.

"The tire can bite," Hedrick explains.
NATION'S BUSINESS · MAY 1982



"and make the motorcycle stand up and fall over backward on you. Or you might spin the tire too hard, and the bike will run out from under you. I probably sat at the drag strip 45 minutes to an hour before I could really convince myself that I wanted to do it. But I finally did—and I got used to it and became quite good at it."

That's not a boast. It's understatement. In 1976 Hedrick began racing nationally. The following year he set eight national speed records. Among those he still holds are 7.38 seconds (94.53 miles per hour) in a ¼-mile race and 11.01 seconds (121.16 miles per hour) in a ¼-mile race, the more usual distance for drag races.

What does he enjoy about these hairraising sprints?

"Not so much the ultimate top speed," he says, "but acceleration."

"Honor thy father and thy mother that thy days may be long upon the land..."

That's the Fifth Commandment, and it should ensure Hazel P. Kolb a ripe old age. For example, she'd sooner run out of gas than forget her dad's natal day. And she always gives him a gift that's rather unusual for a man, now 91, going on 92.

"Every year on his birthday," she says, "I give him a ride on my motorcycle. And he loves it."

In all her touring—she has ridden in all 50 states—she has never had a major mishap. There's a simple but powerful explanation.

"God," she says, "rides in my buddy seat." But on her father's birthday, Dad rides behind her, temporarily displacing her Maker.

Kolb was 42 when she got a motorcycle for her very own in 1968.

"It was the second Sunday in May." she recalls, "and my late husband, Jack, and I were at a dealer's in Quincy, Ill. He had this little Honda, and my husband said, 'Ride it home and I'll buy it for you for Mother's Day.' It was only about 35 miles from there to our farm at New London, Mo. But it took me six hours to get there. I spilled the bike three times."

It took her six months—and a lot of spills—to get the hang of it.

"Guts and determination," she says,
"outlasted skin and old clothes. But I
wish we had had rider education
courses then like we have now."

She and her husband planned a 15,000-mile tour together around the rim of the continental U.S. But his death, in 1975, caused her to shelve it.

Then, one day," she says, "I was

standing in front of the mirror and said: 'Self, what are you going to do the rest of your life?' In the past, Jack was always there. Now I was completely alone."

So Kolb, who still manages the farm, made the trip solo in her cream-colored Harley-Davidson FLH 80 Classic.

What does she get out of her hobby? Road touring.

"It's indescribable, the feeling you get when you climb on a motorcycle and let your cares roll away. In an auto you drive with the windows rolled up, the radio and air conditioning on—it's sort of cross-country over a closed course. Bobby was having problems, so I offered some advice. After the race, he told me, 'Look, Dad, if you think it's so easy, get your own motorcycle and try it.'"

That's what Delivuk, owner of Del's Truck & Auto Service, Baltimore, did.

"I entered my first event at Big Berm near Baltimore. And my son was right. I did miserably. I was lucky to finish the race." That was in 1978, when he was ranked a low 74th in the senior class (30 to 38 years old) in his mid-Atlantic district. Now, much improved,

### **Clear Heads Prevail**

Here's what motorcyclists are like, according to a survey by the American Motorcyclist Association:

- Two out of three are under 34 years old.
  - . Four out of 10 are unmarried.
- Ninety-eight out of 100 are male.

They're hooked on bike riding. Seventy percent have been at it seven years or longer. They also log a lot of miles on their odometers:

- 500 to 2,999 miles a year—one out of four.
- 3,000 to 9,999 miles a year—one out of three.
- 10,000 to 25,000 miles a year—one out of 10.

For pure recreation, most like trail riding. That's very important to 30 percent of those polled. Touring and family motorcycling were close behind at 25 percent.

For competition, it's a type of cross-country racing known as motocross—by a mile. Twenty-eight percent think it very important. Drag racing has the highest appeal to an adventurous few—2 percent. But 6 percent find it of at least average importance.

Nor are motorcycles just for fun and games. Twenty-four percent say their bikes are very important to them for daily transportation.

But what do motorcyclists prize most about their riding?

Touring serenely down the Pacific Palisades on a warm May morn? Biking along a woodland trail under autumn-tinted trees? Perhaps a family picnic in a meadow high in the mountains that only a nimble bike could reach?

Actually, for many of them, none of the above.

The real grabber, 37 percent of them attest, is an invaluable psychological reward: "Clearing your head."

like being in a house. On a motorcycle you're out in the open and part of the machine. In Arizona you can feel the desert. Ride through Napa, Idaho, and you can smell Wrigley's gum all over the place—it's mint growing. Riding through Florida orange groves, you can get your vitamins just by inhaling. And you listen to nature all about you."

On a motorcycle?

"Sure, it isn't noisy if you're just cruising on a bike. It's the rider—the hot-rodder, for example—who's loud."

Robert Delivuk's backseat driving got him into the sport.

His 12-year-old son, Bobby, was motocross racing in Hanover, Pa. "It's very demanding," Delivuk says. "It's he's No. 2 in his super senior class (39 and up).

The prerequisite to success? Physical fitness.

"Every Monday, Wednesday and Friday," he says, "my son and I work out at a health club. Twice a week, we play racquet ball. And we run two to three miles a day."

What does he get out of it?

"Well, racing gets in your blood. You just can't wait for Sunday to roll around. Even more important, I always go to the races with my son, who has become very good at the sport. We're so close together, you'd never think we were father and son.

"You'd think we were friends."

### **Safety for Social Security**

In 14 Months the Social Security system will run short of money, its trustees have warned. That blunt news should produce immediate, constructive action to put things back on a sound financial footing. Instead, some rationalize that the problem is being exaggerated, while others direly predict that any limit on the rate of increase in Social Security payments will plunge as many as 1 million recipients into poverty.

The funding problem is beyond dispute. All that's arguable is what month—or year—the system will hit the bottom of the barrel. So far, the predictions of the pessimists have proven much closer to reality than those of the optimists

Implicit in the warnings about impoverishing recipients is an assumption that Social Security is an antipoverty program. It isn't. Those suffering deprivation should be aided by programs designed for that purpose.

Raising all Social Security payments to aid the poorest recipients is like trying to raise the ocean because your harbor is too shallow. Contrary to popular belief, the average after-tax, per-capita income of people 65 and over is greater than that of the general population: It was \$4,450 for the elderly, compared with \$3,412 for all individuals in 1978, the last year for which figures are available. That year, the typical Social Security recipient was a married couple with a total income of \$12,169.

Further, in all but two of the years since 1970, Social Security benefit increases have been larger than average wage increases. Yet it is wage earners who foot the bill.

The elderly also benefit disproportionately from noncash income equivalents, such as Medicare and fully-paid-for homes. Counting these benefits can alter substantially the point at which a family appears to slip below the poverty level—now \$9,290 a year for an urban family of four.

It is time to set aside myth and misplaced compassion and devise a solution that is both equitable and sound.

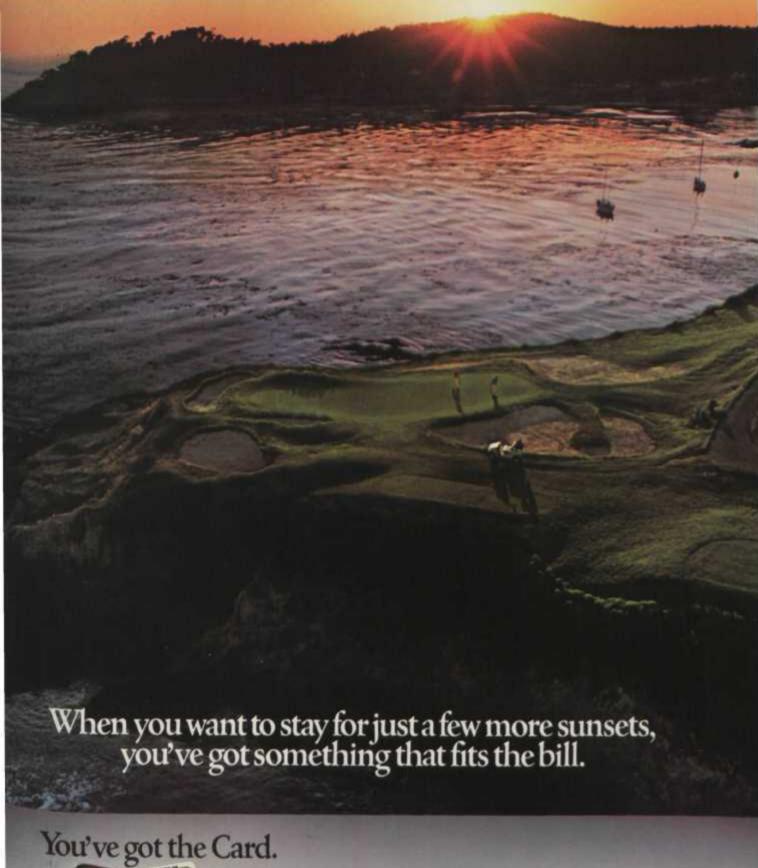
### **Redrawing the Line**

THE FEDERAL GOVERNMENT may be doing a poor job of compiling official poverty statistics. A Census Bureau study indicates that 12 percent to 42 percent fewer people are below the poverty line than present measurements show.

What makes the difference is the value of noncash benefits, such as medical care, housing assistance and food stamps. More than two thirds of federal aid to low-income families is in such benefits, yet only cash is counted in calculating the number impoverished.

By the most liberal method of estimating cash value, 6.4 percent of the population would have fallen below the poverty line in 1979, compared with the study's figure of 11.1 percent. By the most conservative method, the level would have been 9.8 percent.

The need for a realistic government measure of poverty grows in importance as some politicians argue that those above the poverty line should be taxed more heavily to maintain present levels of aid to those below it.



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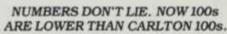
arlton claims to be lowest in tar, And in fact, Carlton and Now share the distinction of being the lowest 80s Box. And the lowest 85s Soft Pack. regular or menthol.

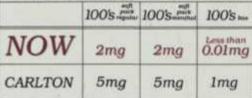
But when it comes to 100s Soft Pack, regular or menthol, you'll note in the chart on the right that Carlton contains more than twice as much tar as Now!

And when it comes to 100s Box, Now is lower by far than Carlton. In fact, Now Box 100s is lower than any other 100mm cigarette anywhere.

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